

U.S. Senator Judd Gregg (R-NH) And U.S. Representative Jim Nussle (R-IA) Hold A News Conference On The Mid-Session Budget Review

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NEWS CONFERENCE - TRANSCRIPT

GREGG: It's a pleasure. Thank you for joining us this morning.

Chairman Nussle and I want to talk a little bit about the adjustment in the numbers relative to the budget, which we think is extraordinarily positive. And I think anybody who's looking at them objectively would agree with that, even though we're not all that objective.

The fact is that what we're seeing today is a consequence of what we think was the strong economic policy put in place by the president and by the Republican Congress when we decided at the beginning of what was a very severe, potentially even more severe recession, and the fact of the impact of the 9/11 event on the American economy, which caused us to have a significant slowdown in our economy.

At the beginning of that process the president chose to come forward with a tax cut for the American people, understanding, I think, a basic law of economics which has been proven over and over again since the time of John Kennedy, which is that if you allow people to keep their money, they will invest it aggressively, they will become entrepreneurs, and they will go out and create jobs and as a result create more economic activity and more revenues.

As a result the federal government will be stronger in the area of its fiscal policy.

It has played out once again. The economy is in a very strong uptick now, in large part because of the president's decision to move forward aggressively with tax cuts and thus the creation of an entrepreneurial spirit and the encouragement of that spirit, which has led to economic activity and new jobs. And that has led to significant revenue jumps.

This chart here shows the revenue jumps that are occurring with this new re-estimation of 14 percent jump in revenues for 2005; 6 percent is projected in the out-years, 6 percent to 7 percent throughout the out-years as a result of renewed economic activity.

And the best way, obviously, for the federal government to address that issue of the deficit is to, one, keep spending under control, which we've done through the budget resolution that Chairman Nussle and I were able to work through the Senate with the help of our colleagues, and the president, obviously.

And two, grow the pie: Make the economy stronger and generate more revenues. And the proof is in the pudding. And the pudding was pulled out of the stove today.

GREGG: And what it shows is that revenues are up, the economy is strong. And that all is a result, in our opinion, of having a good, strong economic policy of reducing the tax burden on the American people and having a disciplined budget in place.

I'd yield to the chairman of the House Budget Committee.

NUSSLE: Thank you, Mr. Chairman. And I want to thank you for your leadership in the Senate and our partnership on this.

As Chairman Gregg said, we've got some great news as a result of mostly increases in revenue. Certainly restraint of spending has been a huge part of this and growth in the economy.

But from fiscal year 2005 until today, the deficit has dropped \$94 billion, or 22 percent, from just the February deficit projections. Let me just cover the last three cycles as an example. From its height of \$521 billion, to the original FY 2005 deficit

projection, until today, just in those 17 months we've seen a \$188 billion correction in the deficit. These numbers mark one of the best deficit corrections on history, on record.

We learned today that as a share of the nation's economy the deficit has returned to levels that are certainly much more consistent and much more comparable to levels of the past 30 years, below 3 percent, to a level of 2.7 percent.

OMB also projects, according to their announcement today, that the surge in revenues and the decline in the deficit will continue beyond the current fiscal year, which is really the news of today, which is somewhat different than what CBO suggested. In fact, OMB now projects that the deficit will fall to just over 1 percent of GDP by 2008 and continue at that low level through 2010.

This, of course, does assume additional funding for the war and policy proposals for funding Social Security that are currently available. So that's good news that I think is out there for the deficit.

Certainly, the main impact has been the economy. When you create jobs, when you keep money in the pockets of people, as Senator Gregg said, they invest it, they become entrepreneurs, they build businesses, they create opportunities.

The tax relief that we passed in '01 and '02 and '03 not only helped bolster our economy, but turned it around from a time when the gut punch of the recession and 9/11 and the extra spending Obviously drove us into a predictable and very deliberate deficit that we needed in order to deal with those challenges.

But we have some great evidence of a strong economy that I think is important for us to continue to highlight. Real GDP has increased for 14 consecutive quarters, with the strongest growth in five years and one of the strongest sustained performances in the last two decades; 3.7 million new jobs have been created over the past 25 months, and unemployment has fallen from 6.3 percent of two years ago to 5 percent last month. That means that 95 percent of the Americans who want to work have been able to go out and find a job and have a job.

NUSSLE: Total employment is at a record high of more than 141 million Americans. Growth in the business equipment investment is at its best in six years. Home ownership rates are at record highs. And a consensus of the private Blue Chip forecasters tells us that this pattern of economic growth and job creation is on track to continue.

Even with accelerated tax relief, our strong economy is boosting tax revenues. When you reduce taxes it often, as we have proven yet again, we are able to boost tax revenues driving federal tax receipts up 15 percent over the same period from just last year.

I don't want any of this to sound the dinner bell for anybody who is out there interested in more spending. We have to remain vigilant with regard to spending. Part of the reason that we're finding ourselves in this position is because we've been able to restrain our non-security spending.

Certainly, there has been a need that I hope nobody argues with. In fact, after what's happened this last week with terrorist bombings. Now, instead of complaining about the spending, now we're hearing people suggesting that we need more spending.

The point is that we need to follow the spending plan that we have for security. And we need to hold the line on discretionary spending. And we need to go through the process that we have instituted this year of mandatory spending restraint using the reconciliation process. We want these numbers to continue but it takes hard work and vigilance and leadership in order for that to be accomplished.

Two other charts I just want to show you. One is demonstrating the fact that we have the highest amount in nominal dollars, of course, in improvements or corrections to the deficit in comparison to years past. And then, finally, this shows you all of the baselines, deficit estimates from 2004 to today. And it shows how that deficit correction is occurring and coming in much lower.

We've got more work to do. We're not suggesting that we've accomplished everything that we want. But this is excellent news. It's probably one of the most underreported news stories of the year in my opinion. We seemed to get a lot of attention when the deficit was at 521 but I have a feeling that we may not get quite as much attention now that the deficit has fallen at a record pace.

And with that we'd be happy to answer your records.

(UNKNOWN): That's because only half of us are talking about it.

(UNKNOWN): That may be.

Any questions?

QUESTION: (OFF-MIKE) what do you think of what's going on there?

GREGG: Well, I think we're going to have an issue when we get to conference. At some point we're going to have to address the issue because a fair amount of money was taken out of Defense in order to fund the non-defense accounts. And, of course, the Labor-HHS bill yesterday moved about the \$3 billion potentially through shifting a date.

When we get into conference, that may be necessary to do that to get these bills addressed. But when we get into the conference, the House has not pursued it in this way.

So I think we'll probably all get back to the table of discussing what we really need to do in order to have a responsible commitment to the government and fund the government.

And that discussion will occur between the White House, the Senate and the House.

I obviously have reservations about it. I mean, I had made points of order on these items and lost in the Senate. And I think it's clear that the Senate has not stuck well to the issue of fiscal discipline so far.

I mean, we had the Louisiana highway robbery raid, and we had the Highway Bill. And in both cases, the points of orders got less than 30 votes.

So I think it's fairly clear that, at least on the Senate side, there is less than robust support for fiscal discipline. But hopefully the House will keep us on track and the White House will join in on that.

QUESTION: The OMB said that (inaudible) don't take into account any sort of AMT patches beyond 2005, which would certainly help explain the (inaudible) revenues numbers there. Is that a realistic thing? I mean, are you guys trying to fix the AMT at some point?

GREGG: I think the budget did. I mean, we've had a \$70 billion reconciliation number, which would allow for an AMT fix. And I think the concept was that it would be done in the context of tax reform, which would hopefully be a revenue-neutral event.

Now, tax reform has been pushed down the road from an agenda standpoint, so I suspect what will happen here is we will see the AMT issue also kicked down the road.

But I do think we're going to get back to tax reform. I certainly hope we will. And, as part of that process, AMT would have to be addressed. But it would be in the context, I think, of a revenue-neutral situation, in my opinion -- I would hope it would be, anyway.

QUESTION: The revised deficit numbers, do you think they'll have any influence on the state tax repeal (OFF-MIKE)

GREGG: I was going to give it to Representative Nussle, but they already repealed it.

QUESTION: (OFF-MIKE)

GREGG: I'm not aware of too many senators other than myself that have budget concerns in the Senate. But if there are, I'm sure this will help that issue.

QUESTION: How important is any of this to the short-term deficit figures, even \$94 billion, when compared to the long-term (OFF-MIKE)

GREGG: It is very important, because every dollar we take down off the deficit today is a dollar that doesn't get compounded in the out-year.

GREGG: And so, yes, it is important.

But obviously we can't ignore the fact that the demographic event which is going to occur, beginning in 2008, with the retirement of the baby boom generation, is going to change the whole dynamic of fiscal policy for the federal government. And we will be locked into a catastrophic fiscal situation because of the demands necessary to support the retired generation in the area of health care and retirement payments.

And we need to address those issues early, and that's why Chairman Nussle's initiative and my initiative in the budget, to start to address entitlement spending in this bill, the first time in seven years, starting with Medicaid, the smallest of the three major accounts, was important.

It's why the president's raising the visibility and discussion of the issue of Social Security has been critical, because those two items, coupled with Medicare, are the biggest fiscal policy concerns we should have as a country in the long term. And they are huge and we need to begin to address them now.

QUESTION: (OFF-MIKE)

NUSSLE: Well, I would disagree with -- I'm not sure that that's been suggested.

Certainly, there are those who may say that, but a full estimate by anyone with authority in this regard, we have budgeted for the \$50 billion in this budget. It's accounted in the deficit numbers that you have been presented by OMB and by us today. Certainly, in those out-years there are considerations from a national security standpoint that will have to be made. But those are unknown.

I don't think anyone can say that they can predict what those amounts are going to be. And I think as much as we can, improving the deficit at this stage and getting spending in other areas under control will help us have the flexibility to deal with those out year security needs.

QUESTION: (OFF-MIKE)

GREGG: No.

But we have built into the budget an estimate based on our judgment and based on the Congress' judgment of what we should plan for, given the situation thus far.

GREGG: It could be higher; it could be lower. We certainly hope and pray that it's lower. But beyond that, no, there's no one with a firm estimate yet on exactly what that will be.

QUESTION: When you say it's built in, are you saying that it will be accounted for as part of the deficit (inaudible) or accounted for as part of the general budget?

GREGG: We budget for it as a reserve fund for the war in the budget so that it is accounted in the deficit numbers that you are being presented, both by OMB and by the budget itself.

QUESTION: On a slightly different topic, several Democratic leaders have called for the White House to fire Karl Rove. I was wondering if you agree with that or what you think should happen in this situation, how the White House should handle it.

GREGG: I think we're here to talk about the deficit, but as a practical matter, it's pretty hard to make that case when the investigation hasn't even been completed yet. That's a political hyperbole it sounds like to me. I can't imagine that coming from my colleagues, but I think it might be.

QUESTION: Just in terms of the Democrats have said that even though this is an improvement, it will still be the third-largest nominal debts on records and that the rate of interest is going up.

NUSSLE: First, the deficit mattered, now they're saying, no, it doesn't matter, is basically -- it's not really as good or it doesn't really matter, it really is the long term -- they've got a story for everything.

We have always focused on the deficit. We focused on controlling spending. We focused on growing the economy. The president has done so. We've done it as a team. And today we get just a very brief moment, although I have a feeling it will be not only shortlived, but rarely discussed moment, to celebrate the fact that it's working.

This is the incredible shrinking deficit. And it's probably not going to get much attention, I realize. But we think it's good news. And it's based on sound policy. And we want it to continue. And that's why we don't want to let anybody off the hook, thinking that now is the time to spend more money.

QUESTION: Do you think this forecast of \$333 billion (ph) might be too conservative, that it might actually come in below that?

NUSSLE: Yes.

GREGG: Yes.

NUSSLE: Yes, it's possible. But if you did it on the other side, people would complain you're using rosy scenarios. So no matter where you put it -- I'd rather be wrong to the good, and that's where we are today.

NUSSLE: We have estimated. We have made these judgments. We're controlling spending. The economy is growing at a much greater pace.

That's good news and I'd rather be surprised with good news than to be surprised in the other direction.

GREGG: The bottom line here -- and I don't think it should be ignored, and I know the chairman is right and it will be ignored because it's good news -- but the bottom line here is this: This country had the largest bubble in the history of the world, bigger than the South Sea bubble, bigger than the Tulip bubble, the biggest bubble in the history of the world.

We should have gone into a massive recession. This country was attacked in one of the most destructive acts in the history of our nation, which totally disoriented us and the economy for a considerable period of time.

And in the middle of all that, this president had the foresight to say, let's give the American people the tools they need to be creative and generate jobs and generate economic activity by giving them a tax cut, and it worked. It worked. And it's working today.

And, yes, I think these numbers are conservative in the sense of the level of the deficit, and it's because of the fact that the policies which were put in place at considerable political risk and significant derisive comments from the opposition, have proved to be the right policies.

QUESTION: David Walker, the comptroller general, not responding to your particular point, but just generally has said the U.S. (inaudible) out of recession for about four years, the economy is growing robustly, and still we have a \$330 billion deficit.

Is this just a structural deficit that the U.S. says...

GREGG: That's not how David said it. David's been before my committee -- David Walker, the comptroller general, has been before my committee many times. He is one of the most respected comptroller generals and witnesses that have come before my committee. That's not the context and the way he says it.

He sends the siren call about the future of our fiscal situation based on a number of pressures -- health-care pressures and retirement security pressures that we have to deal with. There is no question about that.

But to suggest that he would not find this to be good news that we're at least managing the short term by controlling spending, by putting in place some of those reforms, by putting back into reconciliation, which he counseled us on, I don't think that would be the case.

QUESTION: But I heard him just last week say deficit of \$350 billion is...

NUSSLE: It's not \$350 billion; it's \$333 billion.

QUESTION: ... not a triumph, that it's still a cause for considerable concerns.

NUSSLE: Well, we're not here today, as I said, not being concerned. I'm concerned that we follow the budget and that we do reconciliation, that we continue on the path of fiscal responsibility.

If we do that, coupled with the great growth in the economy, I think we will continue to see some of these big deficit corrections that even David Walker did not predict just six months ago.

QUESTION: What do you think of this constitutional amendment being introduced in the House for a balanced budget?

NUSSLE: I've supported that in the past. What I've always said about the balanced budget amendment is that we ought to do the work to balance the budget.

Having the constitutional amendment and going through that process of ratification is a positive exercise, I happen to be for it, but I would much rather, if I had the choice of spending my time as budget chairman actually doing the job of balancing the budget, which is what we're up to right now, versus passing a constitutional amendment, I would choose being the chairman and making sure that we were able to actually get the deficit under control.

GREGG: Thanks a lot. Have a great day.

NUSSLE: Thank you.

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