



BUDGET COMMITTEE



Judd Gregg, Ranking Member
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**Senator Gregg's Opening Statement at
Senate Budget Committee Mark-Up of Fiscal Year 2009 Budget Resolution
(unofficial transcript)**

Thank you Mr. Chairman. And we appreciate your courtesy on many levels, including your staff's courtesy, making sure that we could get as much information as you wanted to disclose, which is very little.

Since we haven't had a chance to look at your specific budget, and the numbers, we have to work in relationship to last year's budget, but I would note just as a comment that we look at last year's budget as a classic tax-and-spend Democratic budget. That's what you do and you do it well. And I'm looking at your charts here and by my estimation, 84.9% of your charts are about spending and money. So there's a consistency there.

The concern I think we have is, if the budget that you're presenting is an extension of last year's budget -- which it appears to be in many ways, just from what I was able to identify here -- this actually spends a lot more money; raises a lot of taxes on working Americans; increases the debt dramatically; games the enforcement mechanisms, especially Pay-Go; and creates a situation where you may wreck the federal budget and end up failing to help balance the family budget, which of course should be our goal.

If we look at your track record from last year, which I think is worth looking at, going into last year, of course I think everybody was willing to give everybody the benefit of the doubt. That was your first time back in the majority in twelve years in both the House and the Senate, so the benefit of the doubt was given.

And so one representation remained that certain things were going to occur, like tax cuts were going to be put in place, or spending was going to be controlled, or entitlements were going to be addressed or Pay-Go was going to be used to discipline spending, all those things, the benefit of the doubt occurred, and you could make the representation that you were going to do that. In light of last year's record, I think it's hard to maintain credibility on those points.

It's especially difficult when you realize that most of the arguments that are made by the other side of the aisle are that 'our budget is better than the President's budget because of this or that,' or 'the President's budget doesn't do that so we're not doing it either,' for

example, in defense spending. But of course, under the law, the President plays no significant role in the budget process other than to send up his ideas. The budget is a child of the Congress and it is not signed by the President.

For the most part, every President sends a budget up here, his budget is looked at, the core spending is looked at, but the basic policy of a Presidential budget is usually passed over to a large degree by Congress because Congress has its own views on how it's going to spend money. The Presidential budget is not the Congressional budget, and the Congressional budget is what governs the actions of the Congress. It sets the allocation numbers for the Appropriations Committee, it sets the reconciliation events, which deal with taxes and entitlements, and it is not signed by the President. Of course the final products, the Appropriations bills, are, and reconciliation bills would be, but the actual blueprint is the product of the Congress.

This first chart simply reflects last year. Last year, the budget ended up raising taxes by about \$736 billion. It ended up significantly increasing spending, especially discretionary spending; it ended up significantly increasing the debt, as the President's budget would have done, so did the Democratic budget; it gimmicked the Pay-Go language; and it ignored the \$66 trillion of unfunded liability, which is the looming fiscal crisis our country faces.

To break it into more specifics, the debt of course went up by \$2.5 trillion, tax increases went up by \$736 billion. What does that mean, \$736 billion? Well, it means that approximately 47 million Americans would get hit with a tax increase of approximately \$2,700 each. It meant that 18 million senior citizens would get hit with a tax increase of approximately \$2,100 each. It meant that 24 million small business people would get hit with a tax increase of approximately \$4,700 each. And it meant that 7.8 million people who are not taxed today would get taxed under the legislation that passed this year and is governing this year. And it appears that the budget that is being proposed again has essentially the same impact.

On the mandatory side, mandatory spending went up \$466 billion. Now that's automatic, but there's no attempt to address it or any significant efforts in the area of controlling mandatory spending.

On the discretionary side, the stated discretionary increase was \$205 billion. We see here again that the Chairman has said, 'Well we're only doing this amount' and he shows the two lines of how close the President's line is to the line and says, 'That's only 2%.' Well 2%, when you're dealing with a \$3 trillion budget is a lot of money. I think it works out to \$395 billion.

And the point is, it's not just one year. When you increase spending by \$23 billion, as was proposed last year in the budget, that goes into the baseline, it's not a one-year event and it builds up over the years. It works out to about \$250 billion over five years, \$350 billion over ten years. So it compounds as the years go on. On top of that \$205 billion discretionary increase which occurred last year, there was the supplemental increase,

which was new spending slipped into the supplemental, which was about \$18 or \$19 billion as I recall, which compounded into the \$200 billion range on top of the \$205 billion. So the increase in discretionary spending was very significant.

If we go on to the next chart, we can see that the savings on the mandatory side was zero. Mandatory spending is a threat. The Chairman likes to say 'The debt is the threat.' Well what drives the debt? The debt is being driven by the fact that we have \$66 trillion of unfunded liability which has to be paid for. Mandatory spending. There are no savings and there is no effort to save money in last year's budget and there is no effort to save money in this year's budget, or to control mandatory accounts in any way. And that's a real failure of this budget. And it should cause us all concern that those accounts, which are so critical, are not being addressed.

Worse than that, last year's budget used the reconciliation instruction to expand the size of government. Now, reconciliation was never perceived as being for the purpose of expanding the size of government. What happened was there was a \$750 million reconciliation instruction that came out of the House of Representatives which was then taken and exploded into \$19.5 billion of new government programs.

I have deep reservations about using reconciliation that way. What I find really cynical however, is the fact that we're not stepping forward as a Senate and saying this is what the reconciliation is going to be. Because this is happening again this year. The House is talking about a \$750 million -- ironic that they would use that number again -- a \$750 million savings under reconciliation. They don't need reconciliation. The House does not require reconciliation, they have a Rules Committee. They don't have a 60-vote issue. The only purpose of reconciliation is to get around the filibuster here in the Senate.

And so if the House is doing the Senate's dirty work, that's not appropriate. If there's going to be a reconciliation event, let's put it on the table and talk about what it is. What is it that you're going to put under that \$750 million? Is it going to be \$19 billion of new spending like it was last year for a new program or is it going to be \$40 billion of new programs? And where is the new program going to occur and what is it going to be?

Let's have some transparency. We hear a great deal about the integrity and honesty and transparency of the government. This idea that you're going to run your reconciliation out of the House of Representatives with a \$750 million de minimus event -- even though \$750 million isn't a small amount of money for any of us, it's a de minimus event in the context of a \$3 trillion budget -- being used as a stalking horse for the purposes of protecting the Senate leadership and the Senate majority in the area of how they're going to explode or expand programs and raid some account to do that -- I don't know what account it will be, I presume it's going to be Medicare Advantage, but I don't know that -- why not talk about it openly? Why use this gimmick and have the House do your dirty work? Let's tell the people what's going to happen here in the Senate. It's not about the House reconciliation. So that whole issue of mandatory savings becomes a fairly big issue for me on the question of how we budget.

Now to return to last year's budget, last year, the Chairman of the Committee said, 'I believe first of all, we need more revenues.' Well, we did get more revenues. We're going to get \$736 billion under this year's budget, those are tax increases that are going to be paid by the middle class. This idea that we hear so much about – regrettably, because it's not accurate -- that you can just simply tax the rich and generate these types of numbers doesn't work.

If you go from a 35% top rate to 39.6%, which was the top rate under Clinton, which is taxing the rich, do you know how much money you would raise in income taxes? \$25 billion annually. That's a lot of money. But it doesn't cover anywhere near the spending initiatives which are proposed.

And when you raise \$736 billion in taxes it means you're going a lot deeper than the top rates to get that money. You're going to end up taxing working Americans at fairly high rates. As I mentioned before, 47 million Americans' taxes go up, 18 million senior citizens' taxes go up, 24 million small businesses' taxes go up, and 7.8 million people end up paying taxes that don't pay taxes today because they're in low-income brackets.

And while we're on the issue of taxes, again, why do you have a surplus, which you were open enough to say you're going to eliminate? Why not eliminate it at the Committee level? Why take to the floor a surplus and then offer an amendment on the floor, which takes the surplus down in order to cover the extension of taxes for, I guess it's going to be the marriage tax, the child tax credit, the 10% bracket, and estate tax potentially. That has bipartisan support. You don't need to take that amendment to the floor. Do it in Committee, and get the accurate number coming out of Committee. Why are you playing this game? Why this shell game where we don't know where the tax cuts are coming from that you're going to agree to?

We do know that over this five-year period if you don't take action on taxes you're going to take credit for tax increases which represent about \$1.3 trillion. If you go out and reduce that -- as your numbers now claim you're going to do although they're not showing in the budget we're going to get -- by some extension of some of the tax breaks, marriage penalty, child tax credit, then you can reduce that, you're probably going to bring it down to a \$900 billion tax increase on working Americans. And you can't get it out of high-income people. I've already explained why you can't do that.

So why not do it here? And end up with the honest statement to what your tax revenues are in this bill? Your tax revenues are huge. This bill represents the largest tax increase probably in history. I can't believe we've had a \$900 billion tax increase before this bill. So it's pretty significant.

In addition, I would note, we went through this little dance last year, where Senator Baucus came out and offered this same type of an amendment. Well, you've got a surplus, which you took credit for, but we're going to reduce the surplus by this tax cut which Senator Baucus offered an amendment on. Maintaining the 10% rate, marriage penalty, and child tax credit I believe were the three items.

There was a vote, and people claimed, 'Well, I supported those tax cuts.' Where are they? They never passed the Senate. The only tax cut that passed the Senate this year was a one-year, kick-it-down-the-road issue on AMT. So last year was claiming you were going to do this, but you didn't do it. This year you're claiming you're going to do it again; why should we believe it'll happen this time? It's inconsistent.

In addition we have these enforcement mechanisms. Last year, the Chairman said, 'Let's restore Pay-Go, let's really pay-as-we-go, let's close the loopholes.' Well, unfortunately last year on fifteen different occasions, Pay-Go was gamed. In some instances it was outright waived, AMT, and I guess Pay-Go isn't going to apply to AMT in this bill either.

We moved spending out a year in one exercise, in the Farm Bill I believe it was. In the SCHIP bill, we cut the program by 85% in order to avoid a Pay-Go event, which everyone knew wasn't going to happen. In the MILC program, we put the MILC money into a different vehicle so it wouldn't be subject to Pay-Go. All of this was gamesmanship.

So we ended up with, what I have referred to many times, as Swiss-Cheese-Go, and you ended up with \$143 billion of gamesmanship. Why even use the term Pay-Go anymore? It has no credibility any longer in light of all this activity.

The Chairman also said, 'I have said I am prepared to get savings on long-term entitlement programs.' Last year, there were zero savings.

You said, and last year's budget assumed, that we would receive a significant amount of funding from uncollected taxes. \$300 billion was the estimate. And there was a reserve fund set up for that. And that's where we were going to get the money. Taxes weren't going to be increased; we were just going to get this money from people who owed money. I'd love to get money from people that owe money, but we just didn't get it. Zero has been the number we have collected under that account, as both these charts reflect.

The Chairman has said 'We should address the debt.' Well, we should address the debt. \$2.5 trillion dollars has been added to the debt. 'Every dollar that we add to the debt is another dollar we are forcing our children to pay back in higher taxes and fewer government benefits,' said the Chairman. And yet the debt increase under the bill that passed last year was \$34,000 per American child.

Now we get to this year's budget and as I said, the President's role in this budgeting process is at the margin. We have the responsibility to do a budget as a Congress. And thus our budget has to be real and be honest and have integrity and hopefully have transparency.

On the issue of this war, we know \$70 billion is not the right number, I was equally critical on the President's budget, and I was especially critical of their number here. As

was the Chairman. \$70 billion is not what this war is going to cost in this budget cycle this year. And to use that number is to obviously artificially reduce the cost of the budget.

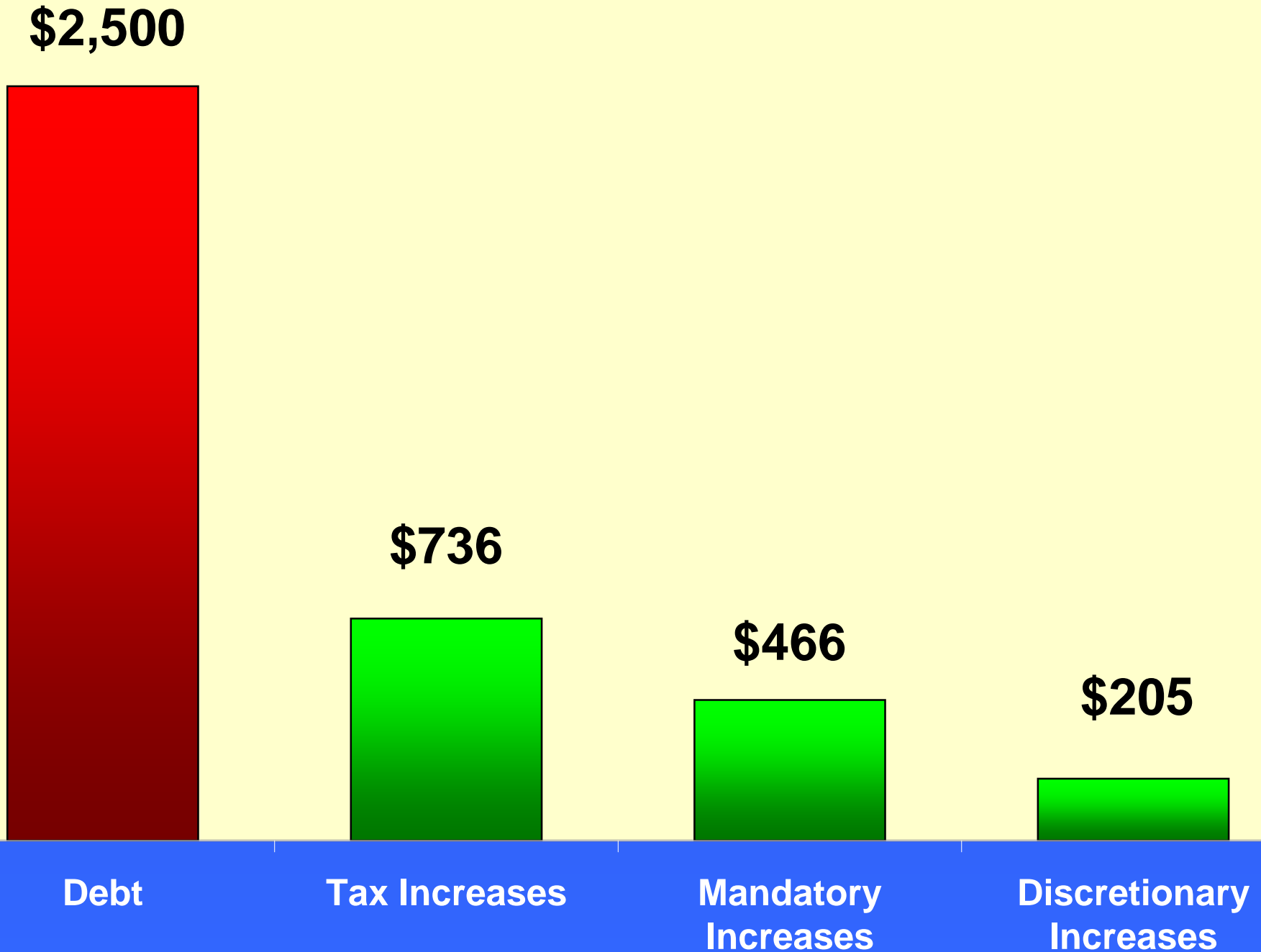
The point here is pretty obvious. I think there's a serious gap between what is presented in these budgets -- last year's and I suspect this year's -- between what is presented to the American people and what actually happens to the American people. Spending goes up, taxes go up on working Americans, the pressure on the family budget goes up, entitlements are being addressed, reconciliation is being gamed, Pay-Go is being gamed, and the budget process is being undermined. The federal budget is being wrecked.

It will be our intention to offer a series of amendments to address many of these issues. In addition, we intend to offer a series of amendments to promote what we perceive to be a positive and aggressive policy that's constructive and is aimed at balancing family budget, in the area of energy, in the area of healthcare, in the area of education, especially in the area of tax policy.

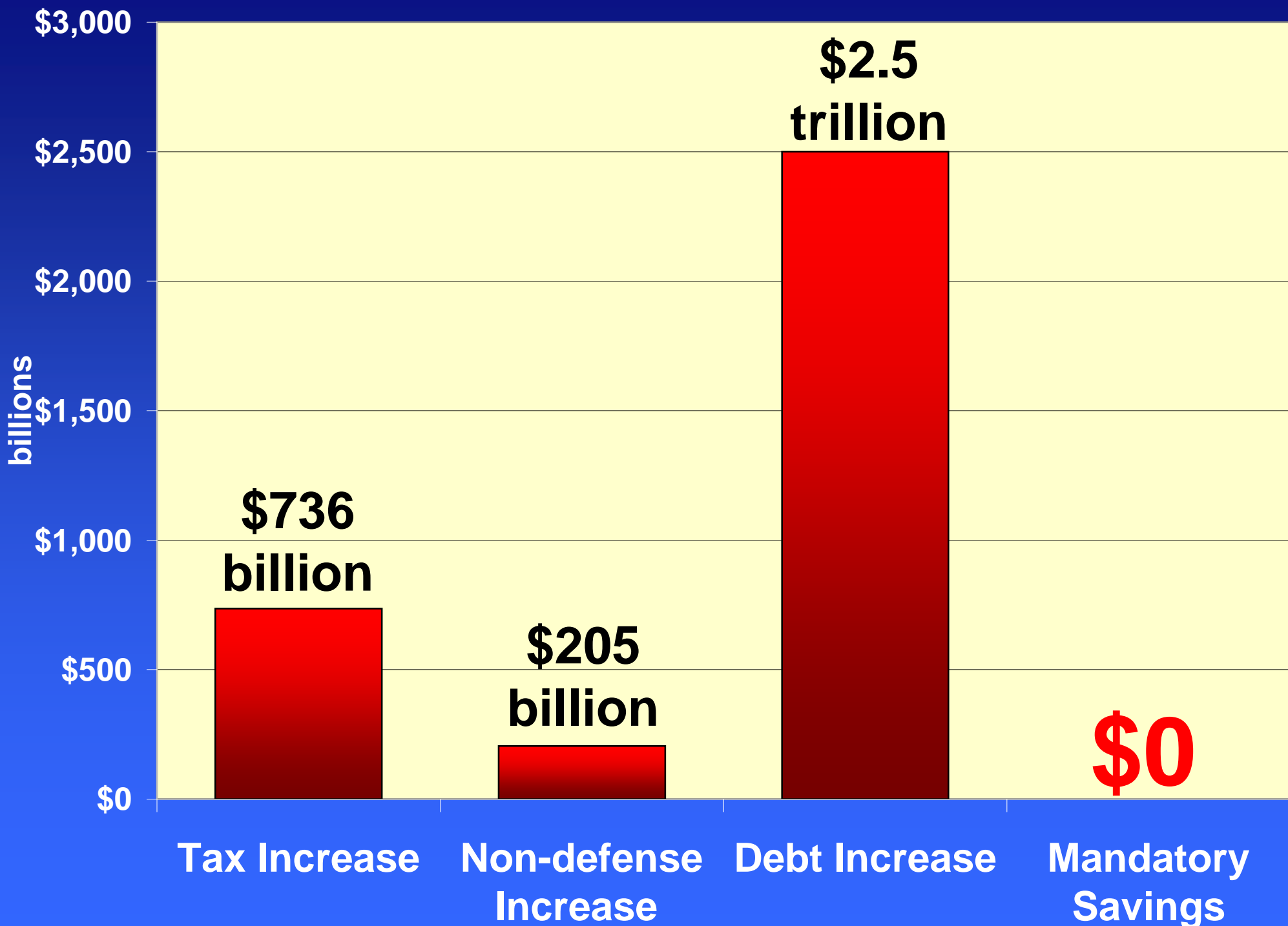
There are obviously very significant differences between our parties on how we spend money in this government and how we tax the American citizens, and I guess that's why we have the two-party system. But I wish we had more straightforwardness on what actually happens on these budgets and we didn't have so many different gimmicks being used. I yield.

DEMOCRATIC BUDGET PLAN 2007 - 2012

Billions



DEMOCRATIC FY08 BUDGET HIGHLIGHTS



**“I believe first of all, we need more
revenue”**

*Sen. Kent Conrad
60 Minutes interview, 3/4/07*

Amount of Tax Increase in FY08 Budget

\$736 Billion

“We need to be tough on spending”

Sen. Kent Conrad

60 Minutes interview, 3/4/07

Number of Spending Cuts in FY08 Budget

0

“Let’s restore pay-go. Let’s really pay as we go. Let’s close the loophole.”

**\$143 Billion of
Gimmicks**

~~Pay-Go~~ Swiss-Cheese-Go

Real pay-go violations

Gimmicks to get around pay-go offset requirements

\$143 Bil

- Minimum Wage Increase \$50 mil
- Water Resources Development Act \$4 mil
- PDUFA \$171 mil
- Immigration Reform \$30.3 bil
- Energy Bill \$4.2 bil
- Mental Health Parity \$2.8 bil

- Spending for MILC \$2.4 bil
- Farm Bill Hidden Future Costs \$17.7 bil
- Farm Bill Spending after 2017 \$9.8 bil
- County Payments/PILT \$4.1 bil
- SCHIP Reauthorization \$45 bil
- New Mandatory Pell Grant Spending \$9 bil
- Student Loan Interest Rate Switch-a-roo \$17 bil

\$38 bil

\$105 bil

“I have said I am prepared to get savings out of long-term entitlement programs.”

Sen. Kent Conrad

FY2008 Budget Hearing with Director Portman, 2/7/07

Number of Savings From Entitlements in FY08 Budget

0

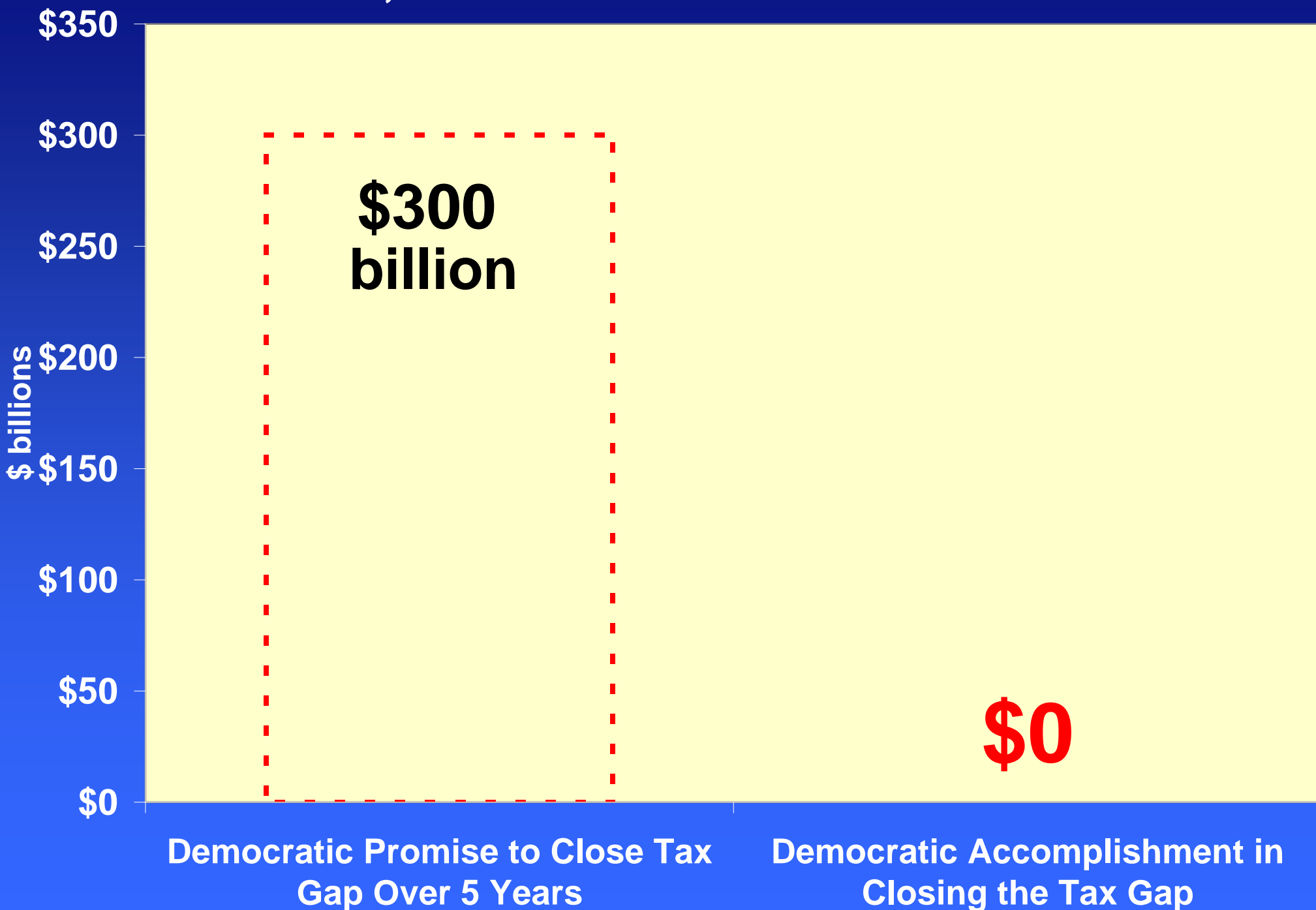
“If we just collected 15 percent of it [tax gap] that would be over \$300 billion. That alone would come close to meeting the revenue needs under our budget resolution.”

Senator Conrad
Congressional Record, FY 2008 Budget Resolution
March 20, 2007

Tax Gap money collected in 2007

0

DESPITE PROMISE THAT CLOSING TAX GAP WOULD BE EASY, DEMOCRATS COME UP EMPTY



Source: Senate Budget Committee Republican Staff

**“I really believe increasingly
the debt is the threat”**

\$2+ trillion debt increase

**Sen. Kent Conrad
Budget Committee Hearing with OMB Director Nussle**

2/05/08

“Every dollar we add to the Federal debt is another dollar that we are forcing our children to pay back in higher taxes or fewer Government benefits.”

\$34,000 for every American under 18.

Senator Conrad
FY 2007 Budget Resolution
March 14, 2006

Assumed in FY 08 Budget

“We know that more will be needed in 2009 and beyond, no matter what happens next”

Spending for the Iraq War in Conrad's Budget

\$70 Billion

Sen. Kent Conrad
Budget Committee Hearing with Gordon England Dept. Sec US DoD
2/08/08