U.S. SENATE COMMITTEE ON
Finance
SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

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Opening Statement of Senator Chuck Grassley
Before the Finance Committee Mark-up of the Jobs and Growth Package
Thursday, May 8, 2003

We gather today to establish a set of tax policies to stimulate economic recovery and create over one million new jobs. Growth in our economy and the creation of new jobs to get the economy moving again are worthy and needed goals. Several weeks ago, the Senate agreed upon the size of the reconciled tax relief cut for jobs and growth. Any disagreement surrounding today's mark-up pertains only to the best means for achieving our agreed upon economic recovery goals. Lengthy conversations with most of our committee members, including Senator Baucus, lead me to conclude that the large majority of the members of our committee agree on at least three-quarters of the tax package.

Our members are in collective agreement regarding accelerating the child tax credit, marriage penalty relief, expansion of the 10% bracket, almost all of the marginal rates (with the exception of the top rate), expanding small business expensing and providing much-needed AMT relief. On the AMT issue, the mark today actually goes further than anticipated and ensures that fewer Americans will be subject to the AMT as a result of this legislation through 2005. Unfortunately, we were unable to solve the problem entirely beginning in 2006 but I would like to continue to work on the issue to ensure that we continue moving in the right direction. These six provisions comprise approximately $300 billion of the total package of the economic recovery proposals on the table today -- and the 3/4 of the bill that I boldly say has bipartisan support.

Unfortunately, key philosophical differences prevent this committee from reaching a general consensus with respect to the remaining quarter of today's modified mark. This is not an unusual circumstance in this committee's history or the Congress's history. Over the last several decades, Democrats and Republicans have held widely diverging views about the best tax policies for getting our economy back on track during times of economic downturn. The most recent example occurred in the fall of 2001 with the Democratic Caucus' stimulus bill. At that markup, we laid out our philosophical differences. Knowing the outcome in advance, we had a lively debate. I will note, however, for the record, that Republicans did not offer amendments. The story might be different today for the other party.

If you look back to the recession of 1991-92, Democratic majorities pushed through stimulus bills on party line votes. These partisan splits were also true in tough economic times in the eighties and seventies. I say this not in a critical way, but in a regretful way. There is much we agree on, but, if history is our guide, it is likely that we split in attempts to remedy the economy. I wish it weren't so. Thank God, these honest, respectful differences of opinion have never soured the cooperative spirit Senator Baucus and I enjoy in our working together.

Views on using fiscal policy to impact the U.S. economy will continue to vary widely. And reasonable and very intelligent minds may continue to disagree regarding the best approach. The important point is that we share a common goal -- to see our U.S. economy strengthened by the tax relief policies we offer as legislators. I believe that we put forth today a balanced package of consumption and investment incentives that will provide short-term stimulus and the building blocks for meaningful future economic growth.

In my view, Republicans and Democrats have disagreed only on two tax components of the President's plan: inclusion of dividends and acceleration of top rate reductions. Although it took some time and considerable effort to reach a consensus, the mark includes a dividend proposal that represents a reasonable compromise from what the President outlined in January and takes into account the Senate's budgetary framework. While not an absolute victory against double taxation, the proposal is reported to cover 86% of dividend-receiving taxpayers and is a good step in the effort to eliminate economic distortions resulting from that tax policy framework. When in full effect, this policy would ensure that dividends would be subject to a top rate of 28%. All other ordinary income would be subject to a top rate of 35%. This means dividend income would enjoy a significant preference over other forms of periodic investment income, like interest.

On accelerating the top rates which, incidentally, only amounts to 7% of the total cost of the package, I caution us against looking exclusively at the number of taxpayers impacted by those rates. Such analysis fails to tell a complete story about the efficacy or efficiency of lowering top rates and seems to focus only on "who gets what" in a distributive sense. In my opinion, the better way to think about it is to focus on (i) what most efficiently changes behavior, (ii) what provides incentives for the creation of jobs, and (iii) what has the largest multiplier effect on the economy. That was the message I heard during our collaborative meetings last week on these issues. Distributional analyses also ignore the fact that successful businesses – profitable businesses that pay proportionately higher taxes and the highest marginal rates– are the ones that will disproportionately add the most labor and capital. This is an important point to keep in mind. Recent analysis suggests that a five percentage point reduction in the top marginal tax rate may increase small business investment by as much as ten percent. Treasury has indicated that 80% of the benefit from the top rate acceleration would be used by small business. Small businesses are the engine of growth for our economy and, in the recent past, have been the source of most newly created jobs. I also continue to believe that it is important to ensure that small-town, small businesses do not operate at a competitive disadvantage vis-a-vis large corporations because they are forced to pay higher marginal income tax rates. Currently, successful small businesses incur a 10% rate penalty when compared with their big business counterparts. Even common sense would tell us that this does not make good economic sense.

We provide state fiscal relief in the mark. Several senators both on the Finance Committee and in the Republican caucus have indicated that they view state fiscal relief as a key component to an overall deal on taxes and growth. I crafted the fiscal relief section of my mark to accommodate a debate on this issue when we get to the floor. My provision would provide a flexible $20 billion grant to state and local governments. These funds could be used for education, health care, law enforcement and other essential government services.

Many members both on and off the Finance Committee have worked on this issue. I believe that addressing this issue on the floor makes the most sense. I look forward to continue to working with my colleagues on this important issue when we get to the floor. In closing, I would like to thank Senator Baucus for his continued efforts to work with me despite our inability to find common ground on all of the elements of this economic recovery package. I look forward to continuing to work through our differences to produce legislation that will hopefully get things moving again as quickly and efficiently as possible. Thank you, and I turn things over to my friend and colleague Senator Baucus.