Committee On Finance

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SENATE FINANCE COMMITTEE MARKUP ON BUDGET RECONCILIATION BILL

Mr. Chairman, you have a difficult job. I know. But you have always conducted the Committee's business with courtesy and civility. As well, you approach the job with openness and willingness to work across the aisle. You have tried to address the concerns of all Members. I appreciate that.

The Finance Committee and the Senate work best when we work toward a product with broad support from both sides. This Committee has a long and deserved reputation for working together cooperatively. That tradition has served us well.

Even at this late date, I believe that it is not too late for us to work in that tradition. And I, for one, will look for opportunities to build consensus. That route will lead to a more enduring product. A better product. Let me take a few moments to discuss why we are here today, the President's proposal, and Congress's response.

Why are we here today? In the first instance, we are here because the budget resolution directs us. The budget tells us that no later than May 8, we must report a reconciliation bill. So we are carrying out our duty under the budget process. But we are also here because the times demand it. On a Montana ranch, when the grasses have burned dry and there's just dust in the air, the rancher has to take steps to feed and protect the herd. When the drought hits, no Montana rancher would fail to act.

On a larger scale, we are here because the American economy demands it. There is a drought in the American economy. And we need to act. Friday, the government reported that the unemployment rate jumped to 6 percent. Since January 2001, the private sector has lost more than 2½ million jobs. The economy has lost more than half a million jobs in the last 3 months alone. We now have the fewest number of jobs in 41 months. Since January 2001, the economy has grown by an anemic average of 1½ percent — far below the post-World War II average. Businesses are telling me they're not investing because of uncertainty and too much overcapacity. And consumers, who drive most of our economy, are not buying. They, too, are uncertain.

So we are here today because the economy demands that we work to create jobs. To increase consumer confidence. To rebuild our economy. To rebuild America. And that, in turn, should bring us to several specific goals. We should seek policies that help the economy grow. They should take effect as soon as possible. They should not undermine our long-term fiscal situation. We should not add needless debt – additional burdens on our children and grandchildren. We must avoid raising mortgage interest rates now. And these policies should spread their benefits widely among all taxpayers. We are all Americans together. All should benefit. Not just a special elite.

Now, let me turn to the President's proposal and to Congress's response. The President proposes a budget. But under the Constitution, Congress legislates. We do not merely rubber-stamp the President's budget. This is the Finance Committee. And by our charter and the times, we have a job to do. There is a reason why the Constitution created the legislative branch in article I. It makes the laws. It is in article II that the Constitution speaks of executing the laws.

Yes, many of the President's proposals command broad support. They may not be the most efficient stimulative proposals possible. But they should increase consumer demand. And I, for one, support them. Specifically, I support, and I believe Senators broadly support:

- helping families meet their costs by increasing the child credit to $1,000,
- speeding up relief from the marriage penalty,
- expanding the 10 percent bracket to give relief to most taxpayers and help most taxpayers spend, and
- ensuring that we do not worsen the difficulties created by the AMT.

I am pleased that the Chairman's mark includes something on each of these items. But Congress has a role to temper and improve the President's proposals. From my perspective, several areas are key.

First, the amount of the tax cut package is critical. The absence of fiscal responsibility over the long-term affects long-term interest rates today. We have a duty to be responsible. We must not worsen interest rates and dampen economic growth by passing an irresponsibly large package.

In January 2001, the Congressional Budget Office projected <u>surpluses</u> of $5.6 trillion for the decade to come. Now, CBO projects that the President's budget would result in <u>deficits</u> of $2.1 trillion for the same period — a swing of almost $8 trillion. And recent projections make those projections look overly optimistic.

And our balance of payments bill is closer to becoming due. The dollar is declining against the Euro. Could it be that investors are beginning to question America's long-term economic policy? Clearly, our fiscal circumstances are much less favorable than when we considered the 2001 tax bill. We are in a different situation, from that of 2001.

Today, we must keep the size of the tax bill within narrower limits. Today, we must be more concerned about contributing to higher interest rates. I am pleased that the Chairman's mark keeps within a limit of $350 billion over the coming decade.

Second, the President's proposal on dividends is troubling for many of us. Yes, the tax treatment of dividends might be a worthy subject — as part of a budget-neutral corporate tax reform debate. But the President's dividend proposal — at roughly $400 billion — is simply too fiscally irresponsible, too complicated, and affects too few taxpayers to be appropriately included in this stimulus package. It borders on irresponsibility.

Only 3 out of 10 tax filers report dividend income on their tax returns. They are the only ones who would benefit from the dividend proposal. Seven out of 10 Montanans would see <u>no</u> tax benefit at all from a dividend tax cut. The provisions in this bill should benefit taxpayers more broadly across the income spectrum. That way, they can most effectively get money to taxpayers who would spend it and spur the economy.

Third, the President's proposal to accelerate the tax cuts for those paying the very top tax rate poses difficulties. This proposal alone costs some $35 billion. It would benefit only that 1 percent of American elite with income greater that $311,000. In better times, I might support a package that included benefits for those paying the top rate. But with the economy in the shape it is in, now is not the time to accelerate this rate reduction. Once again, this provision is just too costly and too narrow to effectively spur demand and rebuild the economy.

Fourth, more needs to be done to infuse funds to cash-strapped states and localities. The economic downturn has cut state and local revenues dramatically. But state constitutions – as opposed to the U.S. Constitution – require states to balance their budgets. So state and local governments are forced to make widespread, often painful spending cuts in education, in health, and in other vital programs. Even so, more than half the states are still struggling to balance their budgets this fiscal year and next. These state spending cuts are more than offsetting any theoretical gains that tax breaks for the elite might pass on to others.

For example, last year, the state of Montana cut benefits for severely mentally ill youth, in order to make ends meet. The state also made across-the-board cuts in Medicaid provider payments and increased cost sharing — both of which now threaten access to care for low-income Montanans.

If those cuts were not drastic enough, this year, the state legislature just cut more than a quarter of a million dollars from meals on wheels for seniors. That will mean about 67,000 meals lost over the next 2 years. And budget constraints have also forced Montana to put 700 working families on a waiting list for child care.

Translating Montana's small population to a national level, those cuts are the equivalent of more than 2 million lost meals nationwide. It's the equivalent of a 22,000 family waiting list nationwide. We can pass all the Federal tax cuts we want. But what good will they do if we force states and localities to raise taxes, cut jobs, and reduce benefits?

We can avoid these economically-damaging state and local actions by assisting these governments with their budgets through the Federal Medicaid match and other, more broad-based methods.

Fifth, making tax cuts refundable will help spur economic growth. The child credit includes a significant refundable component. We should accelerate an increase in refundability so that the credit reaches more families. They will quickly get funds to people who are likely to spend them rapidly, spur demand, and rebuild the economy.

Sixth, we should increase the bonus depreciation deduction for the year that a business purchases new equipment. In 2001, we saw a sharp drop in direct investment by business. In 2002, we changed the law to give a larger first-year deduction. The drop in direct investment leveled, and even increased slightly. We need to provide more in the depreciation deduction for 2003 to encourage even more direct investment.

Seventh, we need to extend unemployment benefits and help those who have exhausted their benefits. The government reported Friday that nearly 2 million people have been without work for 27 weeks or longer. The average time people have been unemployed is almost 20 weeks — the longest since 1984.

The weak economy has hit everyone. Unfortunately, some more than others. As we rebuild the economy, we should not leave these unemployed workers and their families behind. Any bill to help rebuild the economy must help those most affected by the bad economy. As well, putting funds in these hands will be an effective stimulus. The recipients of unemployment benefits and their families are likely to spend every dollar they get quickly. This spurs demand. Which, in turn, helps rebuild the economy.

I make all of these points with the recognition that our differences are not as large as what we have in common. We agree broadly that we need to help create jobs and get the economy growing. We in this committee should take the steps needed to address those goals. The economic times that face us are a call to govern. We should avoid political point-scoring. We must pass legislation to improve the lives of the people we represent.

Each of us was sent here by the people of our states. They sent us here not to make speeches, not to win debates. They sent us here to make life better. In these difficult times, they sent us here to help create jobs and rebuild the economy. We have a duty to respond to the times. Not the politics. We have a duty to do the people's work.

Thank you, Mr. Chairman.