

News from the House Budget Committee

U.S. Rep. John Spratt (D-SC) - Chairman

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Spratt Opening Statement - Markup of FY09 Budget Resolution

WASHINGTON – House Budget Committee Chairman John Spratt made the following opening statement at the committee's markup of the FY09 budget resolution. The chairman's mark is posted at www.budget.house.gov.

As the Committee on the Budget, our most important charge is to turn out a budget, and today we take up that task. This is often contentious and seldom easy; but it's vitally important if we care about fiscal soundness and the future of our country.

We face a number of challenges: the specter of recession, a crunch in the credit markets, rising unemployment and declining family income, constant inflation in the cost of health care, aging infrastructure, and a porous safety net. The President's budget for 2009 does little to turn this tide. Indeed, the fiscal policies of the last seven years have compounded these problems. Last week, for example, the Chairman of the Fed acknowledged that his capacity is complicated by the government's fiscal condition.

Seven years ago, we came to mark-up fearing that the budget we had finally brought to surplus was about to be undone. I spoke on Saturday morning radio following the President, and urged him not to bet the budget on a blue-sky forecast. We believed that if the rosy projections did not pan out, we would be right back where we had been, deep in deficit. The President told the country in effect that we could have it all: guns, butter, tax cuts too—and never mind the deficits. His economists had projected surpluses of \$5.6 trillion over the next ten years. It looked as though we were sitting on an island of surpluses, but in truth, we were surrounded by a sea of debt—of long-term liability for Social Security and Medicare, just over the horizon.

The debt of the United States then stood at \$5.7 trillion. The President and his team told us that we could pass their budget, cut taxes by about \$1.5 trillion, spend billions more on defense, and still not raise the statutory debt ceiling until 2009. The very next year, in 2002, the Administration came back to Capitol Hill asking for a hike in the debt ceiling. This was the first of six requests to raise the ceiling. It now appears that when President Bush leaves office, the national debt will total more than ten trillion dollars.

For the last several years, the President has sent us a budget with the same tag line: "We are balancing the budget in five years, without raising taxes." But look closely at the Bush budget for 2009, and you will see that dog won't hunt. If not patched or fixed permanently, the Alternative Minimum Tax is a robust revenue raiser; and in the President's budget, the AMT remains fully in force after 2009. Look next at veterans health care. The President's budget

levies a \$15 co-pay and an annual enrollment fee of \$250 to \$750 on Priority 7 and 8 veterans. This is one of many fees in lieu of taxes. All told, the increase in fees is \$2.3 billion. To paraphrase Shakespeare, revenues are revenues by any other name.

The President is unwilling to revisit his tax cuts and unable to reduce the cost of the war, so in the name of balancing the budget by 2012, he hits health care, education, and the environment. He calls for massive cuts in Medicare, \$478 billion over 10 years, plus \$94 billion in Medicaid cost reduction; and provides less than needed to expand the Children's Health Insurance Program to include 4 million eligible but uncovered kids.

The budget function for education is essentially frozen for five straight years. Pell Grants go up, but at the cost of the Perkins Loan, which the President would end. And next to no net increase is provided for the President's own law, No Child Left Behind, which is up for renewal and currently funded at \$15 billion below the level authorized when the law passed.

The Administration continues to tout its commitment to environmental protection and conservation, while repeatedly cutting core natural resources programs. For 2009, the President's budget once again significantly cuts funding for programs that protect public health and environmental quality, leaving discretionary funding \$2.9 billion below the level needed to keep pace with inflation. Our budget rejects these cuts, making a down payment toward meeting our critical environmental needs and protecting our Nation's treasured natural resources.

The Bush budget is notable not only for what it includes but for what it excludes, such as a permanent fix for the Alternative Minimum Tax. If not fixed, nearly 30 million taxpayers will pay AMT rates, and revenues will be \$1 trillion higher over the next ten years. The Bush budget would patch the AMT for 2008, but leave it fully in force over the remaining four years, substantially overstating revenues.

On the spending side, the Bush budget assumes that the cost of military operations in Iraq and Afghanistan will drop to \$70 billion in 2009, after rising to \$193 billion in 2008. Beyond 2009, the Bush budget assumes no war supplementals whatever, substantially understating spending.

Senate Budget Committee Chairman Conrad and I sent the President a letter in January urging him to use realistic assumptions in his budget, and noting that his choices would set the framework for this year's budget debate. We never received an answer to our letter, and his budget ignored our request.

As unrealistic as some of these assumptions may be, the President's budget still does not come close to balance while President Bush is in office. According to CBO, the deficit for fiscal 2008 will be \$396 billion and the deficit for 2009 will be \$342 billion, but that's without another war supplemental of \$100 billion, which the Administration has indicated is coming.

Once again, the President tags on to his budget a proposal for Social Security privatization, to take effect in 2013, four years after he has left office. The first year impact on the budget is small, but the cost from 2013 through 2018 is \$287 billion. If implemented, this budget would never reach balance.

Our Budget Resolution for Fiscal 2009 is no grand solution, but it moves us in the right way. It moves us to surplus by 2012, and posts a smaller deficit than the President's budget over that five-year period of time. It keeps spending in rein while investing where we must to make our country productive. It endorses and allows for extension of the middle income tax cuts,

including marriage penalty relief, the child tax credit, and the 10% bracket. It contains no new mandatory spending that is not fully offset; and it includes program integrity initiatives to root out wasteful spending.

We match the President's defense request, and husband what is left over to plus up other priorities. For example, we provide:

- \$3.6 billion above baseline for Veterans Health Care.
- \$50 billion for expansion of SCHIP, to the extent it is fully offset.
- \$3.8 billion above baseline for education; and \$7.1 billion above the President.
- We call for a long-term fix to the AMT, consistent with pay-go.
- We substantially fund our Innovation Agenda and America Competes.

We know from experience that our Republican colleagues will accuse us of raising taxes. The fact is that our budget doesn't raise taxes by one penny. Republicans made the same charge last year, and we received letters from a number of independent groups confirming that our budget did not raise taxes at all. Republicans will make the same charge this year, and it will be equally untrue.

The tax cuts that Republicans wrote and passed in 2001 and 2003 were written to expire in 2010. We do not call for their termination, or attempt to repeal them before they expire. But when they do expire, if the budget is still deep in deficit, both parties will have to decide which tax cuts to extend. We cannot add infinitely to our national debt.

We have shown that middle-income tax relief can be provided in a deficit-neutral fashion. Consider the AMT, for example. On more than one occasion, high-ranking officials in the Bush Administration have come before our Committee, and when asked about the AMT and its imminent impact on middle-income taxpayers for whom it was never intended, they have insisted that they could fix the AMT with changes in the tax code, so that there would be no loss of revenues. In February 2006, Josh Bolten was the Director of OMB. He told our Committee that the AMT could be "corrected in the context of overall revenue neutral tax reform." In February 2007, his successor, Rob Portman, told the Budget Committee: "Our budget assumes that we will have a revenue-neutral correction to the AMT." The Chairman of the Ways and Means Committee, Mr. Rangel, has taken the same position, except that he has delivered; he has put a revenue-neutral bill on the table to start the debate. But while the Bush budget asserts it has a plan, the Administration does not follow through with a proposal of its own.

Second, there is a way to raise revenues without raising taxes; that's why we had the Commissioner of Internal Revenue here last year to explain the "tax gap," the underpayment of taxes legally due, estimated at over \$300 billion in 2001, and no doubt well above that now. If we spend the next two years bearing down on tax avoidance, then in 2011, the Treasury may have some revenues to offset the renewal of expiring tax cuts. We have laid out explicitly those middle-income tax cuts which we support and will seek to sustain. We have also provided \$490 million for program integrity, or stronger tax compliance.

Third, some dismiss the potential of tax reform, but those of us who were here in 1986 can tell you that by cleaning out the code, ridding it of excess deductions, credits, preferences, and exemptions, we were able to lower the top bracket from 50% to 28%. Another such closet cleaning is long overdue, and one way to deal with the future of the '01 and '03 tax cuts is to include them in a study of base-broadening options for tax reform.

Fourth, look at our budget forecast. Our budget moves to a surplus of \$178 billion by 2012,

and if you were to extrapolate the path our budget is on, we would anticipate more than a trillion dollars of surplus from 2012 to 2017. If these surpluses obtain, they can be used to pay down debt, prepare for retirement of the baby-boomers, or offset the extension of expiring tax cuts.

So, there are many ways to look at tax cuts and the code; and what we are saying here is that we need to use the next few years before the '01 and '03 tax cuts expire to do all of the above, so that we will have the revenues to accommodate renewal of many, if not all, of these tax cuts and restructure the AMT.

When we set out to do this budget, our overriding objective was to balance it, because we are appalled at the mountain of debt being left our children and at our stature in the world as the greatest debtor nation. But we want more than arithmetic balance; we want priorities balanced; we want a budget that does more for our children's education and their health care as well; a budget that makes our workers more competitive and our scientists more innovative. We want to revive America, reclaim our future, and restore our fiscal soundness. This budget is one first step in that direction.

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