



United States Senate
BUDGET COMMITTEE

Don Nickles, Chairman
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MR. NICKLES: MR. PRESIDENT, YESTERDAY THE C.B.O., CONGRESSIONAL BUDGET OFFICE, ISSUED THEIR SEPTEMBER UPDATE. IT JUST CAME OUT. I HEARD MY COLLEAGUE AND COUNTERPART ON THE BUDGET COMMITTEE ALLUDE TO IT ON THE FLOOR YESTERDAY, AND HE DID IT WITH GREAT TALENT. MAYBE A LITTLE DIFFERENT ANALYSIS THAN WHAT I MIGHT GIVE, AND SO I THOUGHT I MIGHT GIVE A LITTLE BIT DIFFERENT PRESENTATION. I THINK THERE'S A LOT OF GOOD NEWS IN HERE AND IT ALSO SHOWS WE HAVE SOME BIG CHALLENGES BEFORE US.

C.B.O. ESTIMATES FOR THIS YEAR THAT WE'RE GOING TO HAVE A DEFICIT OF \$422 BILLION. THAT'S A RECORD IN NOMINAL TERMS, BUT IT'S AN IMPROVEMENT. THE C.B.O. WAS JUST PREDICTING SIX MONTHS AGO IT WAS GOING TO BE \$470 BILLION; SO IT'S DOWN TO \$56 BILLION. THE DEFICITS ARE MOVING DOWN-- THAT'S GOOD NEWS.

O.M.B. PROJECTED EARLIER THIS YEAR THE DEFICIT WAS GOING TO BE \$521 BILLION. NOW THEY'RE DOWN AROUND THE \$440 BILLION-- SO THEY PROJECT SIGNIFICANT IMPROVEMENT. AS A MATTER OF FACT, THE NUMBER THAT C.B.O. JUST CAME UP WITH IS ABOUT \$100 BILLION LESS THAN WHAT O.M.B., THE OFFICE OF MANAGEMENT AND BUDGET, HAD PREDICTED AT THE BEGINNING OF THIS YEAR. SO DEFICITS ARE COMING DOWN. THEY'RE COMING DOWN DRAMATICALLY. I THINK THE GOOD NEWS IS THAT THE BUDGET WE PASSED LAST YEAR AND THE ECONOMIC GROWTH PACKAGE WE PASSED LAST YEAR IS WORKING, AND WE SHOULD BE PROUD OF IT. I'VE BEEN IN THE SENATE NOW FOR 24 YEARS. WE PASSED A LOT OF DIFFERENT BILLS, SOMETIMES TO STIMULATE GROWTH OR TO TRY AND HELP THE ECONOMY OR DO SOMETHING THAT WOULD HAVE SIGNIFICANT ECONOMIC RESULTS. THE BILL THAT WE PASSED LAST YEAR, THE 2003 TAX BILL, WHICH PRESIDENT BUSH SIGNED IN JANUARY, HAS HAD SIGNIFICANT ECONOMIC RESULTS. THAT TAX BILL CUT THE TAX RATE ON CAPITAL GAINS AND DIVIDENDS TO 15% AND ACCELERATED THE 2001 TAX CUTS AND ACTUALLY MADE THEM EFFECTIVE, BECAUSE MOST OF THOSE HAD NOT ACTUALLY GONE INTO EFFECT. SOME CUTS DID FOR LOWER RATES, BUT UPPER INCOMES HAD NOT REALLY RECEIVED A RATE REDUCTION. MIDDLE-INCOME PEOPLE HADN'T RECEIVED BUT A ONE-POINT REDUCTION. WE ACCELERATED THE 28% INCOME TAX RATE TO A 25% RATE, THE MAXIMUM RATE TO 35%, CUT CAP GAINS TO 15%, AND CUT DIVIDENDS TO 15%. AND GUESS WHAT? IT'S WORKED. SINCE THE PRESIDENT SIGNED THAT BILL, WE HAVE A 1.75 MILLION NEW JOBS. THAT'S 1,750,000 NEW JOBS CREATED. WE'VE HAD 12 MONTHS IN A ROW WHERE WE'VE HAD NEW JOBS CREATED EVERY MONTH. WE REALLY DID REVERSE A DOWNWARD DECLINE.

WE'VE HAD A REAL CHILLING THING HAPPEN ON 9/11. OUR ECONOMY WAS HIT. THE FINANCIAL STRUCTURE OF THE UNITED STATES WAS HIT. WE HAD A STOCK MARKET THAT STARTED BURSTING, THAT BURST, FRANKLY, IN MARCH OF THE YEAR 2000. NASDAQ DECLINED BY ABOUT 50% IN THE YEAR 2000. REVENUES TO THE FEDERAL GOVERNMENT HAD BEEN DECLINING DRAMATICALLY. AND YOU ADD 9/11 TO THAT, YOU ADD THE WAR ON TERRORISM, AND YOU KNOW WHY DEFICITS ARE HIGH.

THIS SENATOR SPENT THE MAJORITY OF MY CAREER TRYING TO REIN IN FEDERAL SPENDING AND HOLD DOWN DEFICITS. THESE DEFICITS ARE VERY HIGH. THE GOOD NEWS IS THE DEFICITS ARE COMING DOWN. AND BEFORE ONE CAN CRITICIZE, YOU HAVE TO UNDERSTAND WHAT CAUSED THE DEFICITS. THE DEFICIT IS CAUSED BY THE MARKET CRASH, BY AN ECONOMY THAT, ALAN GREENSPAN MENTIONED A FEW YEARS AGO, CALLED "IRRATIONAL EXUBERANCE" IN THE STOCK MARKET, THAT CRASHED. AS A RESULT, A LOT OF MONEY, BILLIONS, ACTUALLY TRILLIONS OF

DOLLARS OF MARKET VALUE WAS LOST IN THE STOCK MARKETS, AND THAT REDUCTION APPLIED TO MONEY COMING INTO THE FEDERAL GOVERNMENT. THE MONEY WE RECEIVED IN THE FEDERAL GOVERNMENT TOTAL SETS WAS OVER \$2 TRILLION IN THE YEAR 2000.

LAST YEAR IT WAS ABOUT \$1.78 TRILLION. THAT WASN'T BECAUSE OF THE TAX CUTS WE PASSED, IT WAS BECAUSE OF THE VERY SOFT ECONOMY, AND IT WAS BECAUSE OF 9/11.

A LOT OF THINGS OCCURRED ABOUT THAT TIME. PRESIDENT BUSH REALIZED THAT. THIS CONGRESS REALIZED IT. I COMPLIMENT MY COLLEAGUES, ESPECIALLY ZELL MILLER, BECAUSE HE HELPED ME COSPONSOR THE BILL WE PASSED LAST YEAR THAT HELPED MAKE THIS ECONOMIC RECOVERY HAPPEN.

THE OTHER GOOD NEWS IN THE C.B.O. REPORT IS THAT THEY PROJECT ECONOMIC GROWTH IN THIS YEAR AT 4.8%. REAL ECONOMIC GROWTH. THAT IS GREAT. THEY PREDICT 4.2% FOR NEXT YEAR-- THAT IS SUPER. THAT IS REAL ECONOMIC GROWTH OVER AND ABOVE INFLATION.

SO THE BUDGETS WORKED. THE TAX BILL WE PASSED LAST YEAR WORKED. NEW JOBS ARE BEING CREATED, ALMOST 2 MILLION JOBS IN THE LAST 12 MONTHS ALONE.

SO WE HAVE A LOT OF GOOD NEWS. THE BUDGET WE PASSED LAST YEAR HAS WORKED. WE DEFEATED OVER \$800 BILLION WORTH OF ADDITIONAL SPENDING, MOST OF WHICH WERE OFFERED BY MY COLLEAGUES ON THE OTHER SIDE OF THE AISLE, AND LUCKILY WE DEFEATED THOSE. THE BUDGET WORKED. THE GOOD NEWS IS WHEN WE PASSED THE DEPARTMENT OF DEFENSE APPROPRIATIONS BILL BEFORE WE ADJOURNED FOR THE AUGUST RECESS, WE PUT IN A BUDGET PROVISION THAT CAPPED THE DOMESTIC DISCRETIONARY SPENDING. THAT WAS PART OF THE D.O.D. BILL. THAT IS NOW LAW OF THE LAND. NOW WE CAN PASS OUR APPROPRIATION BILLS. WE'RE GOING TO TAKE UP HOMELAND SECURITY LATER THIS AFTERNOON AND HOPEFULLY WE WILL BE ABLE TO PASS IT. WE HAVE BUDGET RULES THAT WILL WORK TO ENFORCE LIMITATIONS ON THAT BILL AND ALL OTHER APPROPRIATIONS BILLS. MAYBE NOW WE CAN GO AHEAD AND COMPLETE OUR APPROPRIATIONS PROCESS.

SO I JUST MENTIONED, THESE THINGS, MR. PRESIDENT, TO POINT OUT THAT THERE'S GOOD NEWS IN THIS REPORT. THIS REPORT IS ALSO DISTORTED BECAUSE IT SAYS YOU HAVE TO USE PRESENT BASELINES. PRESENT BASELINES ASSUME THAT ALL SPENDING WILL CONTINUE TO GROW BASICALLY WITH INFLATION. THIS YEAR ALONE IN THE YEAR 2004, WE'RE SPENDING \$115 BILLION IN IRAQ AND AFGHANISTAN IN THE WAR ON TERROR. WE DID THAT THROUGH SUPPLEMENTALS. WE WILL NOT CONTINUE DOING THAT YEAR AFTER YEAR AFTER YEAR, NOT AT THOSE LEVELS LIKE THIS - - IN THAT PERIOD OF TIME WE'VE BEEN FIGHTING A WAR. WE HAVE HUNDREDS OF THOUSANDS OF TROOPS ENGAGED IN THAT EFFORT. I WAS IN IRAQ A COUPLE MONTHS AGO. WE ARE TRAINING 21,000 IRAQIS TO TAKE OUR PLACE. I WAS IN AFGHANISTAN. WE WERE TRAINING THOUSANDS OF THOUSANDS AND AFGHANISTANS AND WE HAVE 20,000 TROOPS IN AFGHANISTAN. THEY'LL BE TAKING OUR PLACE.

SO WE WON'T HAVE TO CONTINUE, AND WE WON'T HAVE SUPPLEMENTALS NEAR IN THAT RANGE -- LAST YEAR WE HAD \$87 BILLION SUPPLEMENTAL \$28 BILLION INCLUDED IN THE D.O.D. APPROPRIATIONS BILL. WE WON'T HAVE THAT LARGE OF ADDITIONAL MONEY TO BE USED PRIMARILY TO FIGHT WARS AGAINST TERRORISM IN IRAQ AND AFGHANISTAN.

I'M SURE WE'LL BE SPENDING SOME MONEY. I'M SURE THERE WILL BE SOME BUT IT WON'T BE ANYWHERE NEAR OVER A 10-YEAR PERIOD. C.B.O. SAYS IT'S INFLATED FOR THE NEXT TEN YEARS. THAT'S OVER \$1.3 TRILLION.

I MIGHT MENTION TO WE HAVE TO FIX AMT, AND IF YOU ADD THAT IN AND EXTEND EVERY TAX CUT THAT IS OUT THERE THE DEFICITS WILL BE REALLY TERRIBLE.

A COUPLE COMMENTS. ONE, THE PRESIDENT MADE A SPEECH AT THE REPUBLICAN CONVENTION AND HE SAID WE NEED TO REFORM THE TAX CODE. I HOPE -- I WON'T BE HERE BUT I HOPE THE CONGRESS WILL TAKE THE PRESIDENT UP ON THAT. THE TAX CODE NEEDS TO BE REFORMED. A.M.T. IS LIVING PROOF IT NEEDS TO BE REFORMED. IT'S ABOUT YEA THICK, IT'S ABOUT A FOOT TALL. I COMPARE IT TO THE BIBLE. THE BIBLE IS ABOUT AN INCH THICK, BUT UNLIKE THE BIBLE THE TAX CODE CONTAINS NO GOOD NEWS. I LOOK AT THE TAX CODE AND IT IS SO COMPLICATED IT NEEDS TO BE REFORMED. THE PRESIDENT HAS CHALLENGED CONGRESS TO DO THAT. THE NEXT CONGRESS SHOULD TAKE THE PRESIDENT UP ON THAT. YOU CAN FIX A LOT OF THE ANOMALIES. THERE ARE SO MANY INCONSISTENCECIES IN THE TAX CODE YOU CAN'T FIX IT A PIECE AT A TIME. YOU NEED TO REWRITE THE ENTIRE THING.

I THINK THAT CAN BE DONE. IF WE CONTINUE THIS OR THAT, WE HAVE TO EXTEND THE FAMILY TAX PROVISIONS THAT EXPIRE AT THE END OF THIS YEAR. THERE'S THREE OF THEM: ONE OF OF THEM IS \$1,000 TAX CREDIT PER CHILD THAT WILL REVERT TO \$700 PER CHILD IF IT'S NOT EXTENDED. WE NEED TO EXTEND THE MARRIAGE PENALTY RELIEF TO ALLOW MARRIED COUPLES THAT HAVE TAXABLE INCOMES UP TO \$58,000

SO THEY'LL PAY A 15% RATE ON TAXABLE INCOME. IF YOU DON'T DO IT IT GOES BACK TO A \$900 TAX INCREASE ON MARRIED COUPLES. ALSO, THE EXPANSION OF THE 10% BRACKET. THOSE NEED TO BE DONE THIS YEAR, THEY NEED TO BE DONE THIS MONTH. HOPEFULLY THIS CONGRESS GETS THAT DONE AND I EXPECT THAT WE WILL. I'M A CONFEREE OF THAT PARTICULAR BILL IN CONFERENCE AND I'M OPTIMISTIC WE'LL GET THOSE EXTENSIONS. THAT NEEDS TO GET DONE.

OTHER THAN THAT, WE NEED TO REFORM THE TAX CODE. I KNOW SOME ARE SAYING WE NEED A HIGHER RATE. WE WANT TO SOCK IT TO THE WEALTHIER. THE WEALTHIER PEOPLE ARE PAYING THE SAME RATE AS GENERAL MOTORS. I DON'T THINK THE WEALTHY PEOPLE SHOULD HAVE TO PAY MORE THAN THE LARGEST CORPORATIONS IN THE WORLD, BUT I'M ALL IN FAVOR OF REFORMING THE TAX CODE. I THINK THE PRESIDENT IS RIGHT ON IN THAT EFFORT.

INSTEAD OF TRYING TO PAINT THE MOST NEGATIVE PICTURE POSSIBLE ON HOW DOOMSDAY SCENARIO IS, DEFICITS ARE BACK, ETC., THAT ASSUMES WE'RE GOING TO HAVE A WAR IN IRAQ EVERY YEAR. IT'S NOT GOING TO HAPPEN. IT ASSUMES A LOT OF NEGATIVES THAT FRANKLY, I JUST DON'T AGREE WITH. I THINK FUTURE CONGRESSES CAN REFORM THE TAX CODE AND DO IT WITHOUT -- QUOTE -- "HAVING HIGHER TAX RATES ON INDIVIDUALS" THAN YOU HAVE ON GENERAL MOTORS AND OTHER CORPORATIONS.

C.B.O. SAYS DEFICITS ARE FALLING. THAT'S GREAT. THE TAX CUTS WE PASSED LAST YEAR ARE RAISING MORE REVENUE THAN PEOPLE ANTICIPATED. THAT'S GOOD. WHEN REVENUES WERE ACTUALLY IN DECLINE, THE CONGRESSIONAL BUDGET OFFICE OVERESTIMATED REVENUES. THEY KEPT TELLING US THEY THINK IT'S GOING TO BE BETTER. WHEN THE STOCK MARKET CRASHED, IT TOOK A LOT OF ECONOMIC VITALITY OUT OF THE ECONOMY. BECAUSE OF TAX BILL WE PASSED LAST YEAR, I MIGHT MENTION WITH MY GOOD FRIEND SENATOR ZELL MILLER FROM GEORGIA, WHEN WE INTRODUCED THE TAX BILL LAST YEAR, THE DOW JONES WAS AT \$7700. TODAY IT IS AT \$10,300. THE NASDAQ IS UP 40 OR 50% MORE THAN IT WAS WHEN WE INTRODUCED THE BILL A LITTLE OVER A YEAR AGO -- ALMOST TWO YEARS AGO IN JANUARY. WE PASSED THE BILL IN JUNE OF LAST YEAR, AND WE'VE SEEN VERY POSITIVE RESULTS IN THE STOCK MARKET.

WE'VE SEEN VERY POSITIVE RESULTS IN THE ECONOMY, 4.8% GROWTH, AND NOW WE'VE SEEN VERY POSITIVE RESULTS IN EMPLOYMENT-- ALMOST TWO MILLION NEW JOBS CREATED, INCLUDING IN THE MANUFACTURING SECTOR, WHICH HAS BEEN ON A 40-YEAR DECLINE. WE'VE NOW SEEN AN UPLIFT THERE AS WELL. THE CONGRESS IS WORKING THE BILL THAT WE'VE PASSED LAST YEAR HAS HAD POSITIVE IMPACT. ALSO GOOD NEWS: WITH THE COOPERATION OF SENATOR STEVENS, WE WERE ABLE TO PUT IN A CAP ON DISCRETIONARY SPENDING IN THE D.O.D. APPROPRIATIONS BILL. NOW CONGRESS CAN MOVE FORWARD. THAT'S HALF OF OUR BUDGET.

IF SOMEBODY WANTS TO KNOW, THE BUDGET BASICALLY DEALT WITH HOW MUCH MONEY YOU ARE GOING TO SPEND AND HOW MUCH MONEY YOU ARE GOING TO TAX. THIS TOOK CARE OF THE

SPENDING SIDE OF IT, REPLACING THE CAP THAT WE HAD PASSED IN THE PREVIOUS BUDGET. WE HAVE A NEW CAP ON DOMESTIC DISCRETIONARY SPENDING. THAT WAS WHAT WE PASSED ON THE FLOOR OF THE SENATE, THAT IS WHAT WE AGREED TO AND THAT IS WHAT IS NOW THE LAW OF THE LAND. THAT IS GOOD NEWS AS WELL. THAT WILL CONSTRAIN SPENDING. WE'LL FIND THAT OUT THIS AFTERNOON.

I THINK WE HAVE GOOD NEWS ON THE ECONOMY. WE HAVE GOOD NEWS COMING. DEFICITS ARE FALLING, THE ECONOMY IS GROWING, AND WE HAVE A LITTLE WORK TO DO: TO FINISH OUR APPROPRIATIONS BILLS AND TO FINISH ACTION ON A COUPLE OF TAX BILLS THIS YEAR. MR. PRESIDENT, I YIELD THE FLOOR.