



Chairman Nickles' Opening Floor Statement on the FY05 Budget Resolution

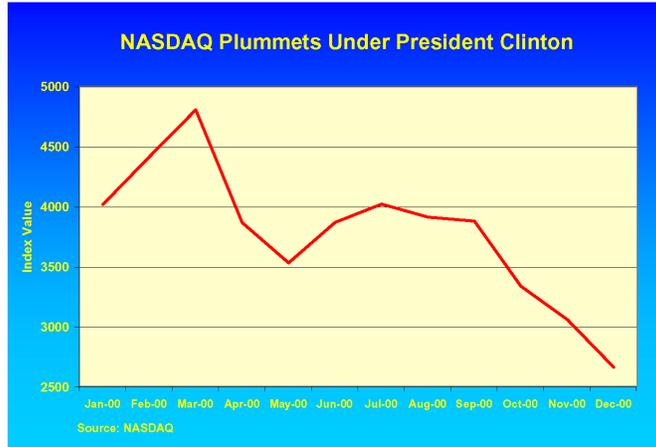
The budget is a difficult challenge. To write a budget for the United States of America, the largest government in the world, the largest economy in the world, is not easy.

President Bush has written a budget. We produced a budget out of the Budget Committee. I hear a lot of complaints about how bad the President's budget is or how bad the resolution on which we will be voting on the floor is, but I have not seen alternatives. I would urge people, show me *your* alternative. Show me how much money you would spend, how much money you would tax. That is basically what a budget outline is: how much money we are going to spend and how much money we are going to tax. What is our objective? How are we going to achieve it?

We use assumptions. A lot of times the assumptions are wrong. I have heard a lot of complaints: Well, President Bush missed the assumptions big time. In 2001, we projected enormous surpluses, and now we have enormous deficits--trillions of dollars of difference. What happened? We don't understand.

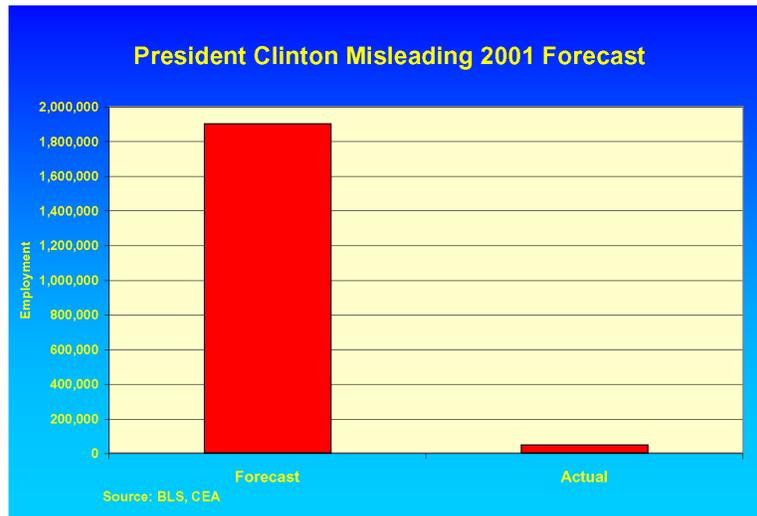
Well, a lot of things happened. Let me just say there have been a lot of inaccurate assessments made. And I go back to the year 2001. In January 2001, everybody missed--everybody missed--big time, not just President Bush. President Clinton, the Congressional Budget Office, the Office of Management and Budget all missed more than you can imagine.

I will just make a couple comments on a little history.



The NASDAQ collapsed in the year 2001, and it continued to decline a little bit in 2002. But a big collapse was really in the year 2000.

I might mention that President Clinton was still President. Yet I will show you the next thing. His forecast for 2001--this was given in January of 2001--estimated about an additional employment of almost 2 million jobs.



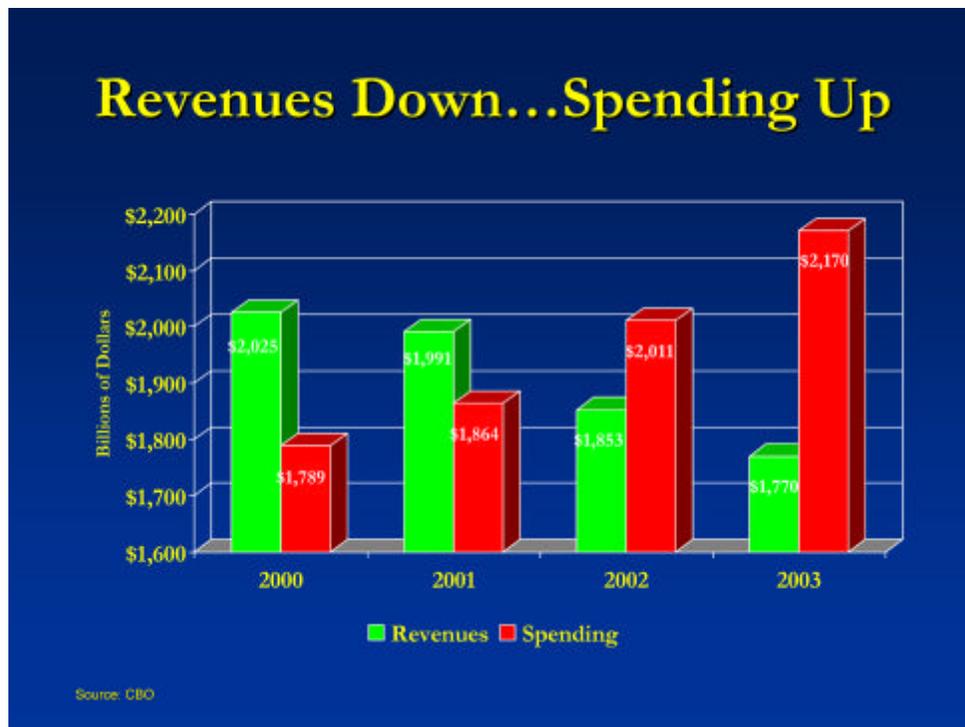
Frankly, the economy was already falling into recession, which was shown by the fact that NASDAQ went down by almost 50 percent in 2000. Yet the budget experts,

Democrats and Republicans, CBO and OMB--CBO is the Congressional Budget Office and OMB is the Office of Management and Budget--projected that revenues would continue to climb, employment would continue to climb, as President Clinton did. They all missed it. They missed it by an enormous amount. They were forecasting trillions of dollars in surpluses. They were way wrong. Of course, they also didn't know, and could not have expected, the hit we had in September of 2001. But there were enormous mistakes that were made.

The market collapse, or the crash of the market and NASDAQ declining by that much was missed. They didn't estimate what the impact would be on revenues and to the economy.

We had trillions of dollars in market value that was lost in the collapse. If you look at the NASDAQ chart again, in March, that collapse started in March of 2000. Individuals, investors know that. They remember that is when the bubble popped. NASDAQ was almost 5,000. Then all of a sudden it was going down to 4,000, 3,000, and it ended up that year at 2,500. So there was an enormous decline of market value. A lot of it was inflated. Chairman Greenspan called it "irrational exuberance," and he was probably right. It flowed through as a real loss and decline of revenue coming into the Federal Government.

In the year 2000, we had over \$2 trillion of revenue. That declined to last year's \$1.78 trillion in revenues. Part of that was tax cuts, but the bigger part of it was the recession.

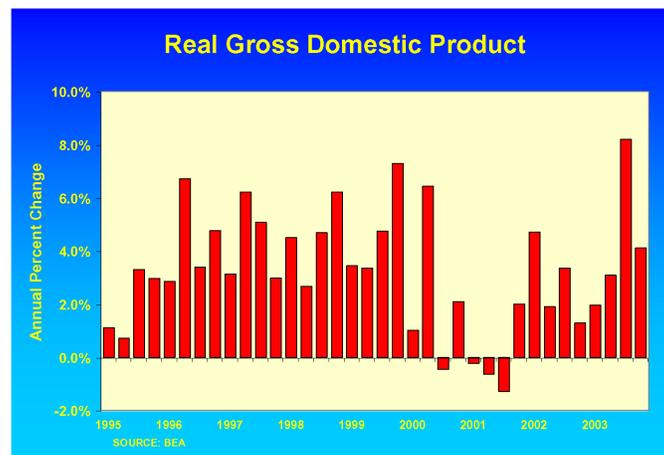


Look at this chart. Where did the deficits come from? Most of the deficits came from economic and technical changes. That is 40 percent, from the assumptions made in 2001.

New spending comprised 37 percent. So you had economic and technical changes of 40 percent; new spending, 37 percent; tax cuts, 23 percent.

Again, this is comparing 2001 to the forecast of today. My point is, I want to give people a perspective of what happened. The new spending--we had big supplemental changes--changes were made as a result of the war. We had two very large supplementals to fight the wars in Afghanistan and Iraq, and a big supplemental to help New York City and Virginia. That totaled almost \$250 billion in new spending just to take care of those who were injured and to rebuild New York City and fight the war on terrorism.

That is kind of what we inherited last year. The previous year, we didn't have a budget. Last year we had to pass a budget, and the economy was still rather flat. Besides, Democrats and Republicans said we needed a stimulus package, we needed to grow the economy. We had different ideas of how to do it. I think some of what we did last year helped a lot.



I have heard criticism. I will make a couple of comments. I think the changes we made last year did grow the economy, did make a difference. If you look at the GDP, gross domestic product, you can see what we were looking at last year. It was rather stagnant. The economy started dropping in 2000, a negative quarter in 2000, and in 2001 it was still pretty negative.

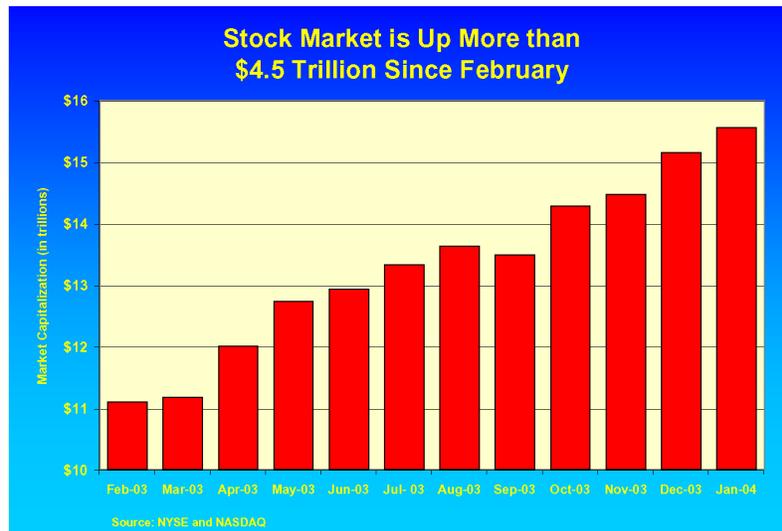
Then we started to have a growing economy. When we passed the tax bill last year--when we started talking about it, we started to notice the GDP started rising dramatically.

The last three quarters were very positive. The third quarter of last year is the largest economic growth period we have had in any quarter in decades--not in years but decades. So the tax bill changes we made were positive.

Some people say I think we want to make changes to grow the economy. We did. We basically accelerated the tax cuts that were already in progress and moved the rates to the rates they are today. That was positive, in my opinion, and very beneficial. We cut in half the tax on dividends. Chairman Greenspan and others said we should go to zero.

The Senate passed a bill that would take the tax on dividends to zero, i.e., they should only be taxed once. We found out then in comparing it that we taxed the contribution distributions from corporations higher in the U.S. than in any other country in the world. We tied with Japan for the highest tax rate on taxing proceeds from corporations, higher than anybody else in the world. We cut that tax in half, to 15 percent.

We cut the capital gains rate from 20 percent to 15 percent. It has made a big difference. You see these economic growth figures--GDP going up by 4, 5, 8 percent. Those are very positive and good numbers.



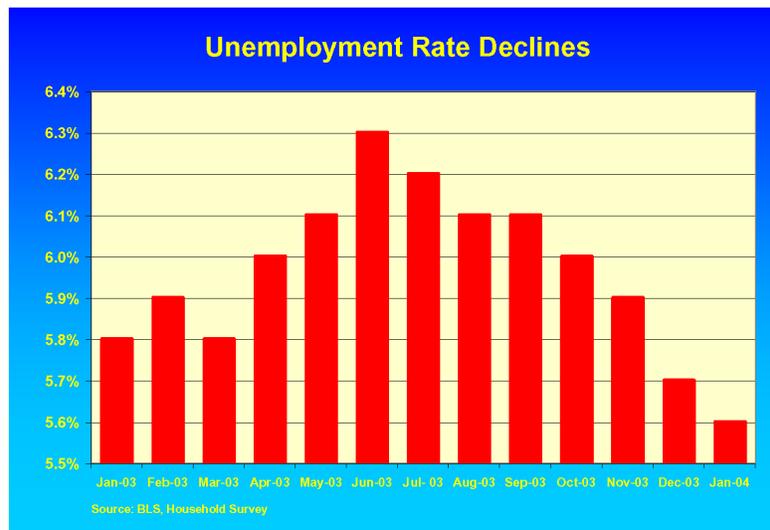
If you look at what was done in the stock market, there was over a \$4.5 trillion increase, almost on a straight line basis, since the tax bill we passed last year. That is astronomical--great, good news. That is good news for all Americans.

Some people say, well, that only benefits the Warren Buffetts or the wealthy people who invest. That is not correct. It benefits the entire economy. That means the wealth of these companies is growing. These companies are owned by, frankly, almost all Americans. I think over 50 percent of the households have direct ownership, if you looked at the investments they have, such as the teachers public employee trust funds, all kinds of retirement plans, 401(k)s, almost all of which have investments in the stock market. That means instead of having declining market value in their retirement accounts, they have

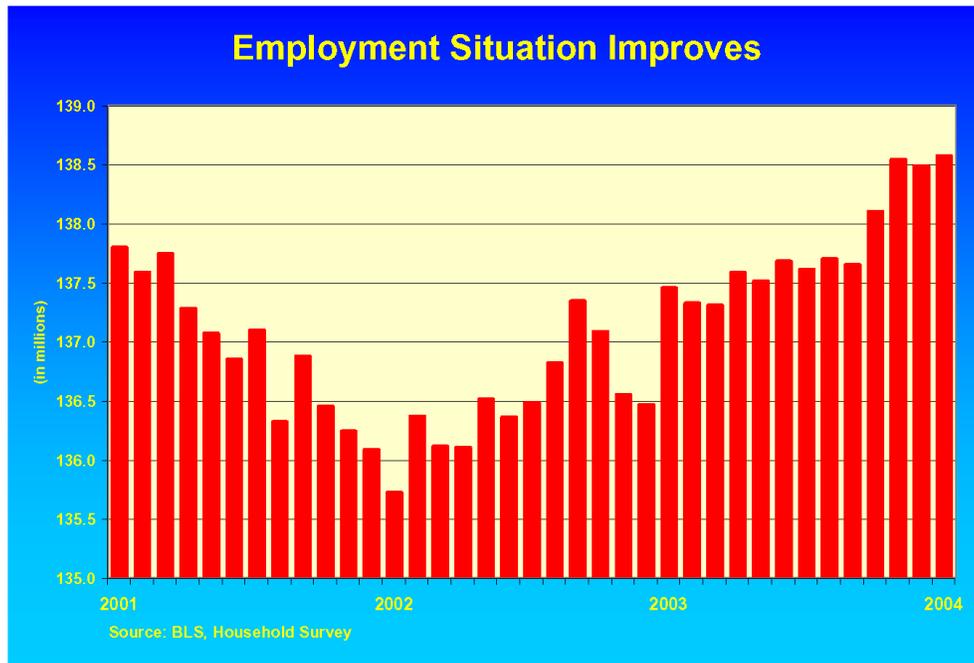
increasing ones, escalating amounts. That is all good news. We want to continue that good news.

The point is, very seldom can you say--we passed a budget last year and, if we had not done that, we would not have had a growth package, we would not have cut the tax on dividends to 15 percent, or reduced the tax rate on capital gains 25 percent, from 20 to 15 percent. That would not have happened. But we passed a budget and it made it possible for that to happen. As a result, I think we have good news to share.

When people think about whether budgets make a difference, they make a world of difference. Can you impact the economy? Yes. We proved that and we did.



If you look at the unemployment rate, for example--and we have heard a lot of discussion on it--it is now 5.6 percent. It was up to 6.3 percent. It has been declining ever since we passed the bill. We made some good progress. We have not had the increase in employment certainly that I would like to see, but it is moving in the right direction.



As far as the employment rates or the number of people employed, we are making progress. I think one of the reasons it has not been as good as we would like in many cases is because productivity has escalated rather dramatically. That is good for consumers, certainly good for our economy. That keeps us competitive. That means we produce more goods per hour and that is all positive. We will see a rise, hopefully, in the employment rates as we continue.

The unemployment rate is down and employment rates are up. If you look at the number of people employed, it is an all-time high. It all happened because we passed a budget last year. So I encourage people who are very critical of this budget to come up with their own. This is not an easy job. So I welcome the discussion.

I also wish to talk a little bit about tax rates. I have heard a lot of complaints about the wealthy benefiting so much from these tax cuts, and how terrible it is that they were disproportionately benefiting from this proposal--either the tax cut of 2001--and there is a lot of discussion and confusion about the 2001 tax cut and the 2003 tax cut. I was one of the principal authors of both. Primarily, I was very involved with it. Let me defend it.

One, for those people who say it didn't benefit the low-income people, that is not correct. In the 2001 tax cut, we accelerated the tax reduction for low-income people and made it effectively retroactive.

Maybe some people forgot that, but we did that.

Again, we passed the tax cut in 2001, and we reduced every tax bracket--every tax bracket, not just the tax brackets for the higher brackets. We reduced every tax bracket, and we reduced the lower tax bracket more than any other bracket.

The lowest tax bracket at that time, other than zero, was 15 percent. We made it 10 percent, and we did it retroactive to January. So we took the lowest bracket, cut that tax rate by 50 percent, and we made it retroactive.

We took the maximum rate, which was 39.6 percent, and we reduced it by 1 point to 38.6 percent for 2 years. Last year we finally got it down to 35 percent. It took us from 2001 to the middle of 2003 before we got it down to the 35-percent tax bracket. It was 39.6 percent under President Clinton. We took it to 35 percent. It is still much higher than it was under President Bush 1 at 31 percent. Thirty-five percent over 31 percent, it is almost 20 percent higher than it was under President Bush 1. But we made the lower income tax bracket reduction effective immediately and we did it all in 1 year. We did not phase it in over 3 years.

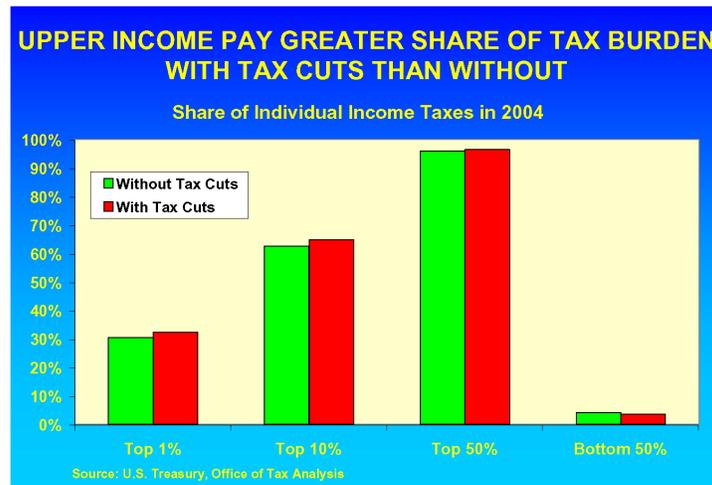
We also did some other things. We made the tax cut more refundable. I don't happen to agree with that, but we did, so we write a check to people who do not even pay taxes. In many cases, we write them a check much greater than their payroll taxes.

I hear some people say: You need to include payroll taxes. I understand there are income taxes and payroll taxes combined, but for low-income people, in many cases we would write a check to them that greatly exceeded their 2001 tax bill. Maybe some people forgot that point.

Then we also increased the \$500 per child tax credit to \$1,000. Last year, we took it from \$700 to \$1,000. That is a \$1,000 tax credit per child. If we do not extend it this year, it will go back to \$700. We assume in our budget that we are going to extend it.

When people say we did not do anything for low-income people, if you have 4 kids, that is \$4,000--4 times the \$1,000 tax credit on which you do not have to pay taxes.

The net impact of that is a lot of people do not pay income taxes because if you look at the child tax credit and you look at the earned income tax credit and so on, we have a lot of programs for low-income people, so maybe they do not pay taxes.



Then we hear the argument of distribution, the class argument: The wealthier are the ones who are benefiting. Frankly, people in the upper 5 percent of income pay half the income tax. Think of that. The upper 5 percent of the American people pay half the income tax. Sure, if you are going to cut income taxes, they are going to benefit. The point being, how much should the rate be? What is the right level? I happen to think when we talk about a 35-percent rate--that is over a third, if my math is somewhat accurate--that is a lot. Why should the Federal Government take over a third of anybody's income for any reason? Why is the Government entitled to take half?

When I was first elected, the rate was all the way up to 70 percent. The Government could take 70 percent of any additional dollar you earned. I think that is wrong. We have gradually reduced it to 28 percent, and it went up to 39.6 percent. Frankly, it is even higher than 39.6 percent because there is a tax on all income of 2.9 percent to pay Medicare. So you actually add 2.9 percent for these income tax figures. Add 2.9 percent, so the maximum percent is 37.9 percent today. Maybe people don't realize that. How much money should the Federal Government take? The power to tax is the power to destroy. Where do you destroy an individual's or company's incentive to produce more? At some point, I can tell you from my experience in the private sector--I used to be in the private sector; I will be returning before too long--at some point, when you work more for the Government than you work for yourself, you lose a lot of your incentive to grow, build, and expand, and when I say expand, I am talking about hiring more people.

I found out earlier when I had a janitor service that I was almost in a 40-percent tax bracket. Why in the world should I get up early every morning or work late at night if Uncle Sam and the State--combined between the two--are going to take about half? It is a real disincentive to grow. I had several employees and could have had several more. I had the same situation when I ran a manufacturing company in Oklahoma. Marginal tax makes a difference.

I mentioned the top rate today is 35 percent. If you add the 2.9 percent because of Medicare, that is 37.9 percent, and you have not yet paid any State income tax. A lot of States have 6 or 7 percent, so you add that. Now you are at 45 percent. Some cities have an income tax. You add that and you are at the 50-percent rate.

Why does someone want to continue building and growing and expanding? Expanding is where jobs are created.

Some people say that is a big benefit for the wealthy. I say why in the world should the Government take half? I don't think they should. Maybe some people believe they should. I disagree.

What we have assumed in the budget is we are going to continue present law; that we are not going to have a tax increase. Some people don't want that to be in there. We assume we are going to continue present law, where we have several provisions that are due to expire at the end of this year. Some of those, frankly, are targeted toward low- or middle-income people. They would expand the child tax credit. As I mentioned, if we do not extend it, the child tax credit will go from \$1,000 to \$700. There is a \$1,000 tax credit today. If we do not extend it, as assumed in the budget, it goes to \$700. So they will lose. If they have 4 kids, they are going to have to pay \$1,200 more in taxes next year than they pay this year.

What about the marriage tax penalty? We assume we are going to extend the marriage penalty relief we put in last year's bill. That is very significant for middle-income tax relief.

Middle Class Family of Four 26 – Percent Tax Increase	
Family Tax Bill in 2004	\$6,000
\$1,000 – Per Child Tax Credit EXPIRES	+\$600
Marriage Penalty Relief EXPIRES	+\$911
10 – percent Bracket Expansion EXPIRES	+\$100
TOTAL TAX INCREASE	\$1,611
Family Tax Bill in 2005	\$7,611

I heard my good friend Senator Conrad talk about the middle-income class does not get anything. That is not accurate, in my opinion. The middle-income class people do very well. If you have a taxable income of \$58,000, your tax bracket is 15 percent. We want to keep it at 15 percent. If we do not pass the extension, it is going to revert down and people will be paying 25 percent if they make \$58,000. As a matter of fact, the savings on that income category is about \$900. So if a married couple and their combined, joint taxable income is \$58,000, the marriage penalty relief we passed last year which we want

to extend is \$900. So you have \$900 there. If they have 4 kids, that is another \$1,200 difference. That is \$2,100 of tax relief for a couple with 4 kids. That is a rather typical American family. My point being, this is real tax relief for American families.

We also expand the 10-percent bracket, and we continue that expansion, or we assume that will be continued under our resolution. That is another \$100.

If you look at the savings, we have \$900 on marriage penalty relief we would extend; we have \$1,200 for the child tax credit we would extend; another \$100 for the 10-percent expansion. We expand the amount of income that would be taxed at 10 percent. By continuing those provisions, we save the American family which has \$58,000 in taxable income and 4 kids about \$2,200.

That is real relief. Percentage-wise, on the amount of taxes they pay, it is probably a greater percentage relief than anyone. It is very significant. So I want to put some of the tax equity arguments in perspective.

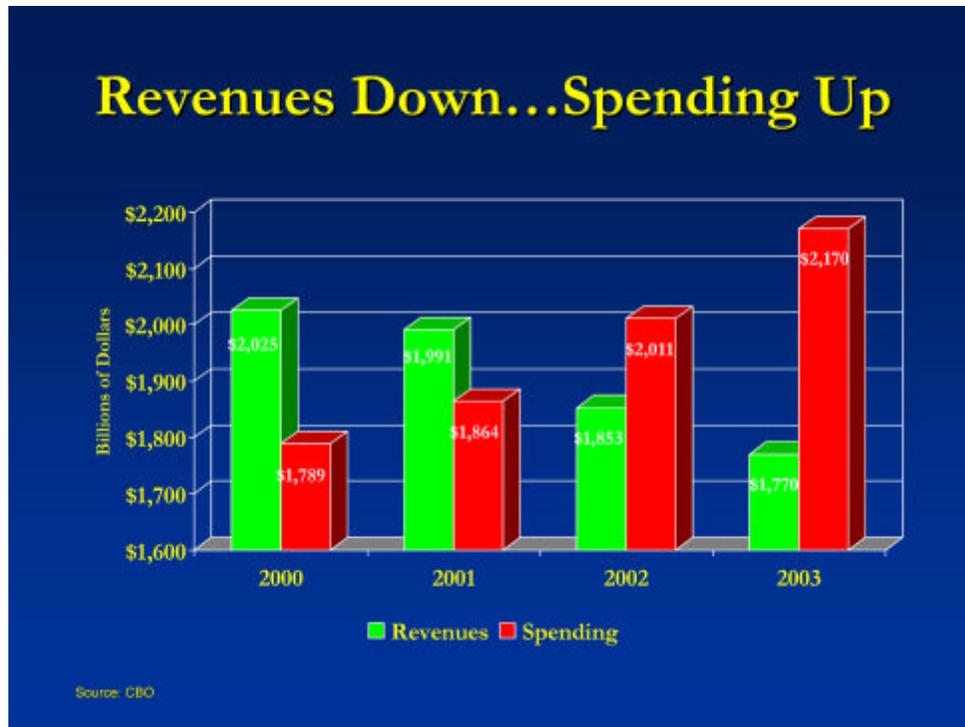
I will make just a couple of other comments about the budget. I mentioned what we assume on the tax side. I tell my colleagues if they are bent out of shape, we have a reconciliation package instruction that would make all of those things I just mentioned be extended throughout the 5-year window of this bill.

This is a 5-year budget. I am assuming all those things would be made permanent, or at least be extended through this resolution. Things cannot be made permanent in budget resolutions. A lot of people say we want to make those tax cuts permanent. I said fine. We just have to do a tax bill outside of reconciliation.

I am happy to do the tax bill, I tell my friend and colleague. I think he knows that. I have the pleasure of serving with him on the Finance Committee. This Senate has done many tax bills, many inside reconciliation and many outside. By definition, if they are inside a reconciliation they are terminated. I do not like that. Frankly, I want to do something this year on the death tax or the estate tax. If we are going to do something on the death tax, it ought to be done outside of reconciliation so it is not temporary, so it is permanent, so tax planners and others can figure out what they want to do and they can count on it. So maybe we will have the opportunity to do that if we do bills outside of reconciliation.

I have looked at it more or less as a fallback, and I told Senator Grassley, who is the very able chairman of the Finance Committee, that we might have this as a fallback but hopefully we could do these things outside of reconciliation. That would be a couple of options.

That is \$81 billion that we are assuming in reconciliation. We assume about \$12 trillion in the next 5 years in revenues. So the amount of money we are trying to direct through the reconciliation process is very small in proportion to the total amount of money that is expected to be raised under current law. So I just mention those things on the revenue side.



What about on the spending side? I showed the chart where spending has gone up and revenues have gone down, mostly because of the economy, somewhat because of the tax cut. Expenditures have gone up rather dramatically.

We believe it is time to be responsible. We think it is time to make some reductions, to at least cap the growth on spending. So the resolution we have makes some tough choices. In many cases we have not made tough choices in the past.

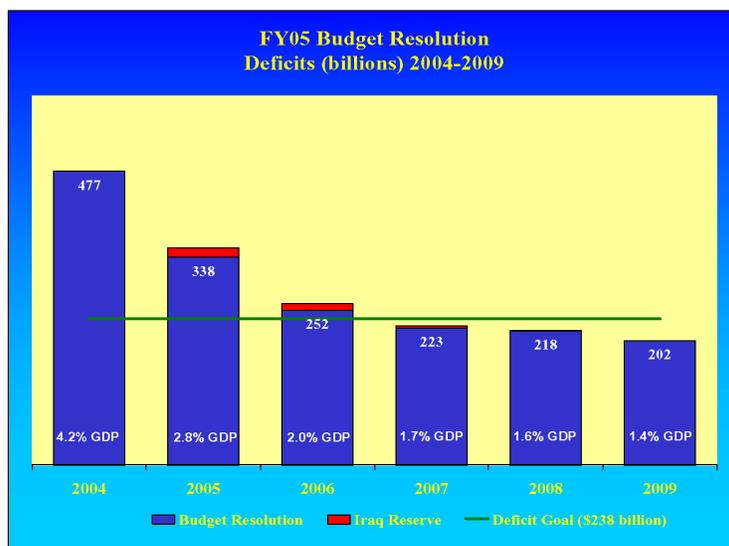
I am sure I am going to hear from my colleagues: Well, too much is cut, too much is assumed. Basically, we still assume spending will grow, but it is going to grow by less. In some cases, for the assumptions we have that defense would grow about 5 percent, I have already heard--very strongly I might add from Chairman Stevens and Chairman Warner--that they want 7 percent. The President requested a 7-percent growth in defense. We have assumed 5.1 percent, and I expect there will be efforts to--I might even say I know there will be efforts that will be coming to increase that level.

We assume the President's number in homeland defense. I have heard people say that is not enough; he did not do enough on first responders; he did not do enough for port security, and so on. But we assumed a 15-percent increase in homeland security, according to CBO. If we take out the bioshield, which was actually funded last year, it is about a 10-percent growth. Again, 10 percent when looking at the rest of the budget, nondefense, nonhomeland security grows by basically a freeze. We could say .5 percent or a freeze. The President's budget said it would grow by about .5 percent. Our budget is very close to a freeze.

These programs are not used to a freeze. I can show program after program, going all the way back since 1990, that has been growing in annual expenditures in double digits continually. They are addicted to that kind of spending growth.

If we try to say, I am sorry, you may have to live with a freeze, that is not going to be easy. I know a lot of the appropriators are looking at it and saying: Whoa, we are used to having a lot more money than that. I know this will not be easy. I tell my friend and colleague from North Dakota, it will not be easy because I know there is a lot of demand to spend somebody else's money. Frankly, I do not think \$500 billion deficits are acceptable.

The administration estimated the deficit for this year at \$521 billion. I hope they are incorrect. We use the Congressional Budget Office. There are differences and they are legitimate. There are professionals both at the Congressional Budget Office and OMB, and I respect them all. They have different estimates, for different reasons. We can spend a lot of time on that, but the Congressional Budget Office estimates that this year the deficit will be about \$477 billion.



The President said he wanted to get the deficit down by half over 5 years. That is very significant. The President is estimating \$521 billion. To try and get that in half over 5 years is a very significant deficit reduction, not easily obtained.

Since we use the Congressional Budget Office, we start at \$477 billion. Under our budget resolution, next year the total deficit will be \$338 billion. That is a reduction of about \$140 billion--actually \$139 billion in 1 year. That is a very significant decline. The next

year goes down again about \$80 billion, a very significant deficit reduction, not easily done.

If we are successful in doing that, we will be very close to the halfway mark in 2006. We will be there in 2007. So we are bringing it down.

Looking at it as a percentage of gross domestic product, the estimate today of the deficit is 4.6 percent of GDP. In past years, even in the early 1980s or 1990s, we had deficit figures of as much as 6 percent of GDP. We are bringing it down in a couple of years to 2 percent, which is much more sustainable. In the year 2007, it will be 1.7 percent of GDP. So we are making significant progress in deficit reduction. We would meet this target either nominally through dollars or through a percentage of GDP in 3 years.

I know there are going to be a lot of amendments that say we are cutting too much too fast. Frankly, we are not cutting. We are saying we should allow defense spending to grow as much as necessary, but other than that we need to tighten our belts. We have not done that in the past. As a result, I know people are going to say we need more money, and we will be happy to look at the requests. In many cases we can fund more money, but we may have to cut other places to do it.

I have heard some people say, well, we need money for veterans, for education, for first responders, for defense, or the COPS Program, or whatever. Fine. They can have more money, but between us on the Budget Committee and the appropriators, we are going to have to reduce some money or spending in other areas to pay for it. That is making tough choices. We have not done that.

I remind our colleagues, and I think Senator Conrad would join me, in this budget we do not micromanage where the money is going to be spent. We can assume that money will be spent in education or it might be spent for the COPS Program, but, frankly, we give a number to the appropriating committees and they have to live with that number.

They can change the number. So we might assume one thing for education--actually, we have assumptions in this bill for significant increases in several areas in education. We assume fairly significant increases in veterans programs. Somebody else could assume it differently, or they could say well, we want more money for veterans. Fine. They may have to make some reductions in housing or make reductions elsewhere in the budget to make it equal that total number.

I mention this for our colleagues' information. Doing this budget will not be easy. I am sure we will have lots of amendments. I concur with Senator Conrad, I would prefer to manage it in a way that we would be more direct in handling the amendments, trying to have more amendments throughout the course of the budget debate and not have so many stacked up at the end. I do not think that speaks well for the Senate and our management of this challenge.

This is a challenge. This is not easy.

I yield the floor, and I suggest the absence of a quorum.