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Senate Budget Committee Chairman Judd Gregg
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Mr. Gregg: Thank you, Mr. President. I'm rising today to speak briefly on what is an interesting point that I think needs to be made a few times because there's been a bit of discussion in this chamber, and really in the public's mind, as to how the President's tax cuts have affected the economy and have affected Americans.

If you were to listen to the mainstream press from the Northeast, for example, or to the mainstream commentary, or to our colleagues from the other side of the aisle, you would think that the President's tax cuts were basically a benefit to the wealthy in America at the detriment to those who are not so wealthy. That's the basic theme -- class warfare. That's what we hear day in and day out. Well, the facts are in on the President's tax cuts. And they're very good for this country.

To begin with, let's put into context when those tax cuts occurred. At the end of the Clinton Administration, we had seen the largest bubble in the history of America. The stock market had run up dramatically, way past real values, based on basically paper as a result of speculation around the Internet. That bubble collapsed, forcing us into a recession. That was followed by the attack of 9/11, which was not only a traumatic cultural event for us, which involved a horrific loss of life, it was also a huge economic attack on the American economy.

Those two things together should have thrown us into almost a depression, certainly an extraordinarily severe recession, but what had happened in the middle of this was that the President had suggested cutting tax rates on all Americans, and that tax cut came at just the right time because it softened the blow of those two huge economic events - these two extraordinarily recessionary events - and allowed the economy to bottom out in a shallower and less harmful way, and started the move back up dramatically.

In fact, the practical effect of those tax cuts is the following. After five years we know the facts. Very interesting facts. Number one, the revenue to the federal government has increased dramatically as a result of the tax cuts. Number two, interestingly enough, high-income Americans, the highest-income Americans, the top 20% of Americans in income, are paying a higher share of the income tax burden of America than they did under the Clinton years. Number three, low-income Americans, those people who are in the bottom 20%, who don't pay any income tax to begin with, are actually getting back from the government, in the form of direct subsidy through something called the earned income tax credit, more money than they received in the Clinton years. And the federal share of revenue taken out of the economy is back to its historic level – 18.2 percent.

So you have a situation where the government won; it's getting more revenue. Where the tax laws have become more progressive, and where the economy recovered, creating 5.7 million jobs. Now, how can that happen, you say? How can we get more tax revenues if we cut taxes? How can the high-income people in this country be paying a higher burden of the taxes if we cut taxes?

I mean, the other side of the aisle rejects that concept. They say to keep raising taxes, raise taxes, raise taxes, you always get more revenue. Well, it doesn't work that way. Something, that if you just think for a moment is pretty obvious, it's called human nature, intervenes. If you raise taxes to a level that people perceive as unfair, and especially if they're high-income individuals, they can afford to and they do figure out ways to avoid paying taxes by investing in things which give them deductions. And so tax revenues don't go up dramatically if you raise taxes. In fact, the way you raise revenues is by making tax burdens fair, make it fair so that high-income individuals pay those taxes and are willing to go out and invest in activity which generates income, which is productive and actually creates jobs, which in turn generates economic activity, which in turn generates more revenue to the federal government.

And that's exactly what is happened as a result of the President's tax cuts. We are now at a fair tax burden so the people, rather than avoiding taxes, are willing to pay taxes and are willing to invest in taxable activity. And the federal government is benefiting from a robust recovery, job creation and the fact that more people are paying more taxes, and the high-income taxpayers are paying even more in taxes.

I brought along a few charts to explain this more precisely. This chart reflects the fact that in the last two years, these are the revenues to the federal government, and these are the increase in revenues, the last two years, this is the period when we had the internet bubble, when we had the 9/11 attacks, when the war began. This is where the tax cuts came into place. There was a dip in revenue as a result of the recession. The Internet bubble and the 9/11 attacks, and then those tax cuts started to work and people started to produce more economic activity, make investment, create jobs, and as a result, in the last two years, we have the two highest years of increases in revenues to the government in the history of the country. The two highest years.

Because of a big jump in revenues to the federal government, another result is that our deficit has dropped precipitously. It's gone from $450 billion down to $270 billion this year. This chart reflects that we are now back after the recession - the blue line reflects what is the historical level of the percent of gross national product paid in taxes, 18.1%. The black line represents how much we're spending as a government. The red line represents how much we're receiving as a government.

You can see it goes up and down. What happened was in the Internet bubble when people were manufacturing money basically through paper, there was a huge amount of revenue generated as a result mostly through capital gains, but when that bubble collapsed and when we were hit with 9/11, the economy dropped, the incomes dropped, and down here is where we made the tax cuts and the economy started to come back, and so now we're back at historical levels of revenues for the federal government -- we're actually above the historical level now. We're getting 18.2% of gross national product into the federal government.

A very interesting fact is that the high-income individuals in America today, these are the different quadrants, the different groups of people who pay, people who make about $15,000. People who make about $34,000, $51,000, $77,000 and then people making over $184,000 dollars. That's the high-income earner in America, and they are now paying almost 85%, essentially 85% of the federal income tax burden, the high-income American.

Now, that's a pretty progressive system. When you've got the low-income, people with $34,000 or less, actually getting money back, and the high-income individual, the top 20%, pay 84% of the tax burden. That is called progressive taxation. That is after the tax cuts. In fact, prior to the tax cuts during the Clinton years, this is a chart of that top 20% there. The high-income individuals during the Clinton years were paying 81% of the taxes, whereas now under the Bush tax cut they're paying 85% of the taxes.

Again, I point out that if you think about it, this is actually just common sense. If you have a fair tax law, people who are in the high incomes who have the knowledge, the ability and the accountants to invest their money in a way that either pays taxes or doesn't pay taxes, if they feel the tax burden is unfair, they're going to invest in a way that avoids taxes. They're going to buy interest-free bonds and they're going to buy highly-depreciating assets. And so they reduce their tax burden. But if you give them a fair tax burden, they're going to do things that are taxable. And that's good for the government. Actually, it makes the tax law more progressive, a very important fact.

As I mentioned, low-income individuals, under this President, are actually getting a better deal now than they have gotten at any time in the history of the country. This [chart shows] the line of what low-income people pay. Actually it's a payment to them, because this would be the line where they would pay something. Since [George W. Bush] has become President, low-income individuals are receiving more in direct payments as a result of the earned-income tax credit and other credits than they've ever received before. Again, you can compare this to the Clinton years, low-income people - the bottom 20%, of earners in America - basically received about 1.5% back in payments. They weren't paying any taxes. Under President Bush's tax plan, they're getting almost 3% back.

So we've created a tax system now which seems to be doing everything right, in that it is generating an historical level of federal taxes. How much should we take out of the economy for federal taxes? It is generating huge revenue for the federal government. The highest-income people in America are paying by far the greatest share of it -- 85% -- much more than they paid under the Clinton years. And low-income Americans are getting a benefit from the tax rebates which we give them at the highest level in history, and about twice what they got under the Clinton years.

And probably as important, if not most important, it has generated 18 consecutive quarters of economic growth. Economic growth which has led to almost 5.7 million new jobs, and having a good job is the key to economic prosperity. So what we have accomplished is pretty impressive with these tax cuts.

And yet, we continue to hear them vilified by the Democratic party and our liberal colleagues. They just want to keep raising rates. They want to go back to the Clinton years when they would raise rates and, thus, reduce the amount of taxes that the high-income individuals would pay because they invest in shelters or find ways to generate income that were not as taxable. And as a result, it would also impact low-income people because under the Clinton years, we actually had low-income people getting less benefit.

It would probably significantly reduce this economic recovery, which is a direct result of the fact that you have a tax burden today which creates an incentive for the person who is willing to take a risk, an entrepreneur, that person who has a great idea, that man or woman who says, “I want to go start a restaurant. I have an idea I want to try out to build and sell.” That individual who is a risk-taker and a job creator now has a tax climate which says if you're successful, we're going to give you a benefit. That would be curtailed. The other side of the aisle, our liberal colleagues, they want to raise the tax on capital. They want to raise the tax on dividends. They want to raise the tax on income.

Well, all of those things are going to have the practical effect of stifling economic growth, stifling revenues to the federal Treasury, undermining the entrepreneurial spirit of America and the effective use of capital, which is a bit of an economic argument, but it should be pointed out that when you maintain a low tax burden on capital - capital being savings and money people are willing to invest with - that money flows to its most efficient use.

But if you put a high tax on capital and savings, people put it in places where it's not efficiently used. They put it into tax shelters, to put it in hard example terms. If you're an entrepreneur, you're going to go out and start something, and you've got a 15% tax rate on capital. You're going to take a risk. You're going to maybe invest in building that new software or that new computer technology system or starting that new restaurant with that money. You're going to invest in that type of thing.

But if you've got a 30% tax on capital, which is what the Democratic party and our liberal colleagues want to return to, you're going to say to yourself, I don't want to pay that much in taxes, so I'm going to invest in a tax shelter. I'm going to invest it in something that probably doesn't make a whole lot of money, but at least it saves me taxes. It is not an efficient way to use money and it is not an efficient way for an economy to run, and it skews investment arbitrarily, which is totally inappropriate and counterproductive.

It would certainly not lead to these types of numbers where you have economic growth for 18 quarters, where you have 5.7 million jobs created. We have the federal Treasury with the two largest years of revenue in the last two years, where you have the highest-income people in this country paying the largest share of federal tax in the history of this country -- 85%. Where you have the lowest-income people paying no taxes and actually getting more back as a result of credits and benefits under the tax law than at any time in history. And where you have an incentive, most importantly, for the entrepreneur, who is the essence of America's economic strength, to go out and take risks, invest and create jobs.

So the numbers are in. You know, this hyperbole we hear from the other side of the aisle, which is a function of 1950 John Kenneth Galbraith university economics, which says if you keep raising taxes on people, you're going to get more revenue. A stake was put in [that theory] by President John Kennedy when he cut taxes. Another stake was put in by President Ronald Reagan when he cut taxes and got economic growth. Certainly the final stake has been put in it by the fact that we have cut taxes, created a fair tax system now which incentivizes people to go out and be productive and causes them to be willing to invest in things that generate revenue, thus creating jobs.

So that idea just doesn't work. It only makes sense probably if you're a former theater critic who happens to be an editorial writer for the *New York Times*. There is no economic theory that can stand up to it any longer because it doesn't work. The tax burdens, as are shown by the numbers, in this country are pretty close to where they should be, because we are generating huge growth, huge revenues and an extraordinarily progressive system of taxation where the highest-paid pay the most.

Mr. President, I yield the floor.