SEN. JACK REED'S FLOOR STATEMENT
ON THE TAX RECONCILIATION CONFERENCE REPORT 05-11-06

Mr. Chairman, I rise in opposition to this tax reconciliation conference report. At a time when we already have a large budget deficit and are fighting a war, this is an irresponsible fiscal policy. At a time when economic growth is mainly showing up in the bottom lines of companies, ordinary Americans are still struggling with stagnating real wages and incomes. Yet we are debating a tax cut whose benefits go overwhelmingly to those who are so well off that they don't have to worry—as ordinary people do—about what they will have to give up to pay for their next tank of gas or to heat their home. Supporters of the tax cuts in this reconciliation package, including the President, argue that those tax cuts have produced a robust economic recovery and extending them is necessary to keep the economy growing. Some of them even claim that the tax revenues bring in enough revenue to pay for themselves. These arguments are self-contradictory where they are not downright wrong.

At the time the tax cuts in this package were originally passed, the economy was mired in an economic slump and they were sold as a means to jump start the economy. If the Administration is right that the economy is now growing strongly, extending them is unnecessary. If those of us who believe there are still some problems with this economic recovery are right, we would be throwing good money after bad to extend tax cuts that have been ineffective.

Responsible economists at the time pointed out that these particular tax cuts were very poorly designed to produce the job-creating stimulus the economy needed in the short run and that they would be harmful in the long run by adding to the budget deficit. And they were right.

Economic growth, job creation and investment have been weak by the standards of past recoveries. At this point in the recovery from the 1990-91 recession, the economy had created 4.8 million more jobs than have been created in this recovery.

Make no mistake, this tax cut will be paid for by borrowing and adding to the long-run structural budget deficit and it will depress the growth in American living standards. If the tax cuts pay for themselves, where are the revenues? Federal tax revenues as a share of the economy declined in each of the first four years of this administration, reaching a 45-year low in 2004. As the economy recovered it was natural for revenues to rise, but despite that growth federal revenues were still below their historical average level last year.

Some have pointed to the higher than expected capital gains realizations as evidence that the tax cuts pay for themselves. Yet in a recent letter to Finance Committee Chairman Grassley, the Congressional Budget Office concluded," After examining the historical record, including that for 2004, we cannot conclude that the unexplained increase (in capital gains realizations) is attributable to the change in the capital gains tax rates. Volatility in gains can stem from other factors, such as changes in asset values, investor decisions, or broader economic trends."

Past history suggests that the timing of capital gains realizations does respond to tax rates. We saw this in 1986 when realizations doubled from the previous year as investors took advantage of lower tax rates. Today many investors are choosing to realize gains now while tax rates are low. This increases revenues today, but this is just tax revenue borrowed from the future. In recent testimony before the Joint Economic Committee, Federal Reserve Chairman Bernanke noted: *"There are a lot of factors affecting both the increase in the stock market and realizations. And one of the issues here is the question as to whether or not some realizations are taking place today which otherwise might have taken place in the future. And so, in that sense, the increase in tax revenue is reflecting a one-time gain, as opposed to a permanent gain."*

It is clear that over the long-term tax cuts do not pay for themselves. Former Federal Reserve Chairman Greenspan said in testimony before the House Budget Committee *"It is very rare and few economists believe that you can cut taxes and you will get the same amount of revenues…When you cut taxes, you gain some revenue back.*

We don't know exactly what this is, but it's not small, but it's also not 70 percent or anything like that."

Former Chairman of the Council of Economic Advisors Greg Mankiw wrote in his macroeconomic textbook that there is *"no credible evidence"* that tax cuts pay for themselves, and that an economist who makes such a claim is a *"snake oil salesman who is trying to sell a miracle cure."*

The reconciliation bill is full of one-time gimmicks that take money from the future and leave major issues unaddressed. The one-year AMT fix costs $34 billion, but we will be back here next year to pass another fix that could cost an additional $40 for another one- year solution. The AMT is a trillion dollar problem that the Administration refuses to permanently correct.

The IRA provision is another gimmick that raises revenues now at the cost of greater revenue losses in the future. Why provide another tax-favored saving opportunity to the well off who are already able to save on their own? With all the gimmicks and front-loading of future revenues we should rename this bill the Future Tax Increase for Working Americans Reconciliation Act because that is what will need to happen to pay for these tax cuts for the wealthy.

Reconciliation was designed to enforce fiscal responsibility. It was designed for us to make tough choices that emphasize our national priorities. Instead, what we now have is an unprecedented bifurcation of the reconciliation process that is full of gimmicks to pay for unwise tax cuts for those who need it the least, and poor decisions that ignore our needs to invest more in hard working families. The bill before us today has made an utter mockery out of the budget process and has turned it on its head.

Once again, the legislation before us is about choices and missed opportunities.

We have real crises and issues that we must confront as a nation and we are again missing the opportunity of addressing them by squandering millions of dollars on cuts that are unnecessary. It is critical that we deal with energy and it should be at the top of our agenda.

The fiscal strains caused by record-high gas prices hurt workers and the economy. The average household will spend 75 percent more on gasoline costs this year than in 2001. And yet, this tax reconciliation continues to give more tax breaks to large oil companies that have reported record profits in the past year, at the expense of working families.

In March of this year, Lee Raymond, CEO of Exxon testified before the Judiciary Committee that they didn't need the recent tax cuts provided in the Energy Policy Act of 2005. When the most profitable companies in the world tell you they don't need tax cuts and you have more than a dozen tax cuts that have expired for millions of teachers, working families, and students, I believe the right decision is to help those who are in need.

Last November, the Senate passed a tax reconciliation bill which scaled back some of the tax incentives for the major oil and gas companies. Many in the industry noted that these provisions would have little if any impact on supply and demand. In essence, the bill took back some revenue from unnecessary tax cuts for the most profitable companies.

However, these reasonable proposals were eliminated from the conference report before us today.

Why was that done? Because, of all the provisions in this bill, President Bush threatened veto over this entire bill if it included the LIFO revenue raiser, which is a provision that would have eliminated for one year, a favorable method of accounting for the big oil companies. When it comes to making the most profitable companies pay their fair share, the Administration threatens to veto the legislation.

These specific oil and gas provisions that were included in the Senate passed tax reconciliation would have raised $5 billion. This money could have been invested in fully funding energy efficiency and renewable energy programs in the Energy Policy Act. The money would also be better invested in programs such as LIHEAP and Weatherization Assistance Program to help reduce the energy burden of working families, who are disproportionately impacted by these rising prices. These are the first steps in reducing our demand for fossil fuels and are currently our nation's best means of addressing a secure energy future.

Ultimately, this bill will be a drain on national savings and our children and grandchildren will pay the price.

These tax cuts have not contributed to raising national saving. The personal saving rate, which these tax cuts were presumably designed to stimulate, has been going south and is now negative—on average, people are spending more than their current income. To be sure, soaring corporate profits and retained earnings have boosted the business part of private saving. But this is offset by budget deficits, which these tax cuts will only increase.

We no longer have the fiscal discipline that we had in the 1990s, which allowed for a monetary policy that encouraged investment and long-term growth. The President’s large and persistent budget deficits have led to an ever-widening trade deficit that forces us to borrow vast amounts from abroad and puts us at risk of a major financial collapse if foreign lenders suddenly stop accepting our IOU’s.

Even assuming we can avoid an international financial crisis, continued budget and trade deficits will be a drag on the growth of our standard of living and leave us ill-prepared to deal with the effects of the retirement of the baby-boom generation. Strong investment financed by our own national saving—not foreign borrowing—is the foundation for strong and sustained economic growth and rising living standards.

We desperately need to bring our fiscal house in order and today's bill only takes us further away from meeting that goal.