Opening Statement

Financial Services Committee

Federal Reserve Board's Semiannual Monetary Report to Congress

February 12, 2003

Congressman John Shadegg

Thank you, Chairman Oxley. First, I would like to take a moment to welcome Chairman Greenspan and thank you for your testimony before this committee. I believe that, with the added uncertainty of war with Iraq and the continued sluggishness of the economy, your expertise will offer us guidance in ways to improve and promote economic growth.

I would like to emphatically state my support for President Bush's economic growth proposal, especially the plan to eliminate the double taxation of corporate dividends. I was pleased by the release of the President's budget which holds the increases in discretionary spending at four percent, a level equal to the percentage that the average family's income is expected to grow this year. As the President stated in his State of the Union Address, "(f)ederal spending should not rise any faster than the paychecks of American families."

As Members of Congress, we should approach the government's budget with the same common sense we apply to our family finances – but with an additional acute sense of responsibility. Shaping the federal budget is a duty entrusted to us by the citizens that elect us, and we should exercise it with care because it is not *our* money, but revenue generated by the hard work of taxpaying Americans. Like a family, the government's fixed expenditures should go toward funding the basics, like defense and critical infrastructure.

It is our responsibility this year to focus on *restraining* the growth in spending, particularly in areas that are already funded at very high levels. Almost every government agency is doing better than the American family. Over the past five years the median household income has increased by nineteen percent, while the government's budget has increased an incredible forty percent.

Let me provide you with an example: for the past five years, the National Institutes of Health (NIH) has received an extraordinary flow of money from the federal government, including annual budget increases on the order of fifteen percent. If Congress approves NIH's budget request for Fiscal 2003, the Institute's budget will exceed $27 billion – *double* the level it was funded at in 1998. To frame this in terms of family finances, ask yourself: has your salary *doubled* in the last four years?

We cannot continue the largesse of years past – tightening the purse strings is a necessary course of action. Curtailing discretionary spending is essential if we are to allocate government funds for other, more immediate priorities.

Moreover, it is important to understand what it means to "cut" funding at this time when the country is choosing between essential and non-essential spending. A budget *increase* of less than the prior year is not a spending "cut." And critics who characterize a four percent increase as a "cut" should not be taken seriously. It is time for the federal government to start doing what every family must do: separating discretionary "wants" from critical spending "needs" and learning to live within a responsible budget.

I would like to focus on another responsibility this Congress will have in the coming months: improving and expanding the economic growth of the United States. We must quickly pass the President's growth package. This will yield tax relief for every American who pays income taxes by accelerating rate reductions.

I support the President's plan to treat all investors equally in our tax laws, and I was pleasantly surprised by your testimony yesterday to the Senate Banking Committee in which you stated that the President's proposal to eliminate the taxation of corporate dividends was "long-term good corporate policy." This is a view I am sure you will reiterate several times today.

As we all know, shareholders are currently taxed twice on earnings distributed by corporations as dividends: first, when revenue is reported as corporate profit (a thirty-five percent tax) and, second, when it is distributed as dividends. Depending on the taxpayer's income bracket, such double taxation can result in effective rates exceeding sixty percent. An investor in the twenty-seven percent tax bracket, for example, receives less than forty-eight cents for each dollar earned as dividend income. As a result, only about twenty-percent of companies today even pay dividends. Elimination of double taxation of dividends would properly incentivize companies to distribute wealth back to shareholders. It is simply good tax policy to encourage companies to return wealth to investors - the true owners of companies.

Tax relief and sensible short and long-term pro-growth policies are worthwhile achievements irrespective of economic stimulation. The President's plan harnesses these policies in a manner that creates an immediate boost as well. It is time for partisan bickering and the rhetoric of class warfare to take a backseat to the work of passing an economic stimulus package that benefits all Americans. Congress owes a duty to those we represent to pass a strong stimulus package that creates jobs by encouraging investment and consumption and, in the long-term, lays the foundation for sensible fiscal policy by correcting flaws in our tax code.

Thank you again Mr. Chairman for the testimony you are about to give.