United States Senate
Committee on Finance

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Floor Statement of Senator Chuck Grassley:
Opening Floor Debate on Stimulus Bill
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The matter before this body is the Majority's stimulus bill. It merges the products of last week's markups in the Finance Committee and the Appropriations Committee.

Twenty three Senators were involved in the Finance Committee markup. In that group, there were 13 Democrats and 10 Republicans. Thirty Senators were involved in the Appropriations markup. In that group, were 17 Democrats and 13 Republicans. That means over half of the Senate has been involved in either the Finance part or the Appropriations part. For the first time, however, all Senators will have to consider this very large and complicated piece of legislation.

I'm first going to discuss process and then focus on the substance. Because I'm the senior Republican on the Finance Committee, I'm going to focus on the Finance Committee's portion. I, like 69 other Senators, am still studying the Appropriations part.

First off, I want to thank my friend from Montana, Chairman Baucus, for courteously and professionally consulting members on this side.

We had one bipartisan members meeting where Chairman Baucus patiently heard us out. In addition, Chairman Baucus apprised me of the negotiations between the Democratic Leadership of both bodies and the Obama Administration. Those Democrats-only negotiations were extensive. Folks on our side who read press reports could see that. Further evidence of that deal-making is the relatively small differences between the basic structure of the Ways and Means and Finance Committee packages. I want to congratulate Chairman Baucus on those negotiations. The fruit of that labor is the Finance Committee package.

One significant change followed a recommendation I made in early January. That was the addition of the alternative minimum tax ("AMT") patch for this year. Its addition means over 24 million families need not worry about an average tax increase of at least $2,000 per family for this year.

But let no one be mistaken that this bill is the result of bipartisan negotiations. While Republicans were courteously consulted at the member and staff level, we were never at the negotiating table. Speaker Pelosi best described the bottom line on the process. She said: "Yes, we wrote the bill. Yes, we won the election." That quote comes right out of the front page of the Washington Post, dated Friday, January 23, 2009.

Indeed, there was a rumor floating around about an informal agreement among Democratic members. The agreement appeared to be to vote against any Republican amendment, no matter the merits. If you review the markup, you'll find that nearly all Republican amendments were defeated on a virtual party line vote. You'll also find, for the first time in recent Finance Committee tax legislative history, small issues or modifications raised by dissenting members, with a couple of exceptions, were not accommodated. So, let's be clear. We knew, at the outset, the markup would ratify a deal made between the Democratic Leadership of the House and the Senate. No Republican ideas need apply. With the exception of the AMT patch amendment, that was the basic outcome.

Since the largely partisan markup process finished up, we've been told by the President and members of the Democratic Leadership that this bill is open to improvement by amendment. I'm hopeful we'll see follow-through on that.

That's a few comments on the process. Now, I'll turn to the substance.

But before I get into to the substance, I'd like to pull back and talk about the larger picture for a couple minutes. Majority Leader Reid opened debate on this bill yesterday. Yesterday was also Groundhog Day. My first chart is a depiction of Punxsutawney Phil, that famous weather forecaster. Yesterday Phil saw his shadow. Groundhog Day is a recurring event. Groundhog Day is also the title of a famous film starring Bill Murray. Here's a picture of Phil and Bill driving along.

In the movie Groundhog Day, Bill Murray finds himself continually repeating the same routine.

Now, my friend, Chairman Baucus, last year, rightly pointed out the message from the film. The message was that Bill, guided by Phil, eventually had to figure out what he was doing wrong. Once Bill figured it out, he escaped the infinite loop. On this bill, we need to learn from Bill and Phil's adventure. We cannot and should not legislate in a hasty manner and place ourselves in an infinite loop of repeating the same exercise. Democrats and Republicans and the President need to get this right. We cannot casually deficit-spend and ask America's taxpayers to clean up the fiscal mess with high taxes down the road.

To me, there is a particularly compelling irony to the fact that we are debating another stimulus bill at roughly the same Groundhog Day timeframe. One year ago, almost to the exact day, the Senate spent a week debating the economic stimulus package. The target time set for enacting legislation was similar to the one for this package. I'm talking about the President's Day recess. Let's keep the Groundhog Day irony in mind as we move forward. Let's not repeat the same exercise, except this time, with much bigger dollars. Let's get it right.

Now, I'll discuss the substance. First off, I want to make it clear that most on our side agree with President Obama that a stimulus is necessary. The economy is flat on its back. Too many Americans who want to find work can't find jobs. A lot of Americans are worried that their job will be the next to go. We get that on our side. Everyone here knows we need to do everything we can to get the economy moving again. Where we differ is the degree to which the engine ought to be government or the private sector, especially America's biggest job creator, our small business sector. These are honest, well-intentioned philosophical differences, but they are there. On our side, we want the new jobs to come from the private sector. On the other side, the preference is to grow employment through an expansion of government.

Many on the other side and opinion makers who agree with them are invoking the example of President Hoover. They seem to be doing it to portray anyone who questions the trillion-dollar package as a reincarnation of Hoover economics. It's an unfair characterization. Again, let's be clear, folks on our side recognize the need for action.

Also, though Iowans are rightly respectful of the only Iowan to be President, President Hoover, we recognize history. And I'd instruct the other side on a couple lessons from the Hoover era. One lesson: don't obstruct free trade. The highest tariff levels in the history of this country, the Smoot-Hawley tariffs, were enacted in the Hoover era. There is little doubt those protectionist barriers made the Great Depression worse.

Another lesson from the Hoover era: don't raise taxes. President Hoover signed into law significant tax increases. Like the high tariffs, economic history tells us, these burdensome taxes retarded the economy's ability to recover.

On this side, we agree that the lessons from the Hoover era need to be learned. We cannot be passive. Errors of omission on fiscal stimulus should be avoided. Likewise, errors of commission on fiscal stimulus, like impeding free trade and raising taxes, also should be avoided.

By the conclusion of this debate, those differences will be plain to the American People. We will see the differences fleshed out in debate and amendments. That's the way it should be. As I indicated above, most on our side want to improve the bill. Our amendments, large and small, will be offered as improvements to the bill. We hope the other side is sincere in the desire to change the bill in a way that can garner a large bipartisan majority.

Whether Republicans or Democrats have been in control, the test of proper stimulus boils down to three words. All of them begin with the letter "t." Stimulus proposals should be timely, targeted, and temporary. I have a chart that depicts the test. If you apply the three t's test to much of the spending in this proposal you will find it fails the test. We'll get into that when we examine and debate the bill.

Some folks might ask what's the problem if we overshoot and flunk the test.

The first problem is we're running out of budget room.

The bill before us will, when interest costs are included, add almost $1.3 trillion to the deficit.

All of this extra deficit increase would be proposed when the baseline deficit for this fiscal year will hit $1.2 trillion. That amount exceeds all historical records.

As a percentage of our economy, that will mean 8.3 percent. That amount easily exceeds the previous peak of 5.7% in 1983. It's almost 50% percent above any comparable post World War II levels.

The figures on federal debt held by the public are likewise staggering.

In the period of 2001-2007, debt held by the public increased by comparatively smaller amounts, roughly less than 1% per year. This year's change easily exceeds all of that.

So, we need to acknowledge the deficit situation we're in. It is very serious. So, whatever we do, we ought to not make the long-term fiscal situation worse than it is. The other problem is that, if we prime the pump too much and the pumped out stimulus doesn't materialize until after the hoped-for recovery is upon us, then we might risk too much stimulus. The result could be inflation.

Let's bring a sharper focus on this point. The Congressional Budget Office ("CBO") tells us that less than half of the appropriations amounts will be spent out by the end of fiscal 2010. The Finance package does a bit better. Ironically, the tax policy stimulus, much maligned by the hard-core of both Democratic Caucuses, helps the spend-out ratio greatly in the Finance package.

The theory for erring on the side of overloading on the spending side is that we need to direct dollars to the folks most likely to spend them. This is the reason we are told that we need extra FMAP money, expanded entitlements, and other state aid.

It misses the point that the U.S. fiscal policy system already has an arsenal of anti-recessionary automatic stabilizers directed at the same population. These stabilizers provide immediate assistance to those most vulnerable to an economic downturn. CBO says these benefits, including food stamps, unemployment insurance, and Medicaid will grow to $250 billion this year. That built-in lower-income population stimulus will be equal to 1.8% of our economy.

It also misses the point about ensuring that the lesson of moral hazards applies to the states. The fiscal problems faced by many of our states and localities are largely the result of their inability to keep spending in line with revenue.

Between the third quarter of 2006 and the third quarter of 2008, state revenue increased 7 percent and state spending increased 15 percent. In other words, the states and localities spent $2.22 for each additional dollar of revenue. The states have been on a spending spree. And they've dug themselves a hole.

Now, we will hear that an FMAP slush fund for states is necessary to avoid tax increases at the state and local level. We'll also hear that vital services will be cut unless we cut a big blank check to the states. Just as we did during the Finance Committee markup, some on our side will test those assumptions with amendments on those points. An open-ended slush fund is not targeted. It's true no matter how you dress it up.

Perhaps the most disturbing stimulus test failure is on the third "t." I'm referring to the temporary test. In this package, there are many new popular spending programs labeled temporary. Those programs total $140 billion. If these programs are extended or made permanent, we can expect another $1.3 trillion added to future deficits.

And I will challenge anyone on the other side to tell me these programs will be turned off once enacted. With large Democratic majorities and a Democratic President, I'd say any such promise is dubious for this Congress. It's about as deliverable as a promise to sell the Brooklyn Bridge.

To sum it up, this package meets a different three t's test. We start with trillion dollar deficit. We have a bill that, with interest included, adds more than another trillion to future deficits. We have a bill that has new spending, ostensibly labeled as temporary, but likely to be extended, that bakes into the cake another trillion into future deficits. Passing this three "t's," as in trillions, test ought to give any Senator pause.

From our side's view, those are the major shortcomings on the substance. Although we saw execution of a deal to vote down our amendments in committee, no matter whether our ideas were meritorious or not, we'd like to be constructive and build on the parts of the package we support. In other words, we hope our amendments will be more openly received on the Senate floor.

In this respect, we'll go back to the major difference between the parties on how to get the economy moving again. On our side, we'd like to push more incentives for long-term growth of private sector jobs.

There is a good start on a broad-based middle-income tax cut in the package. We'd like to expand the tax cut to cover all middle income taxpayers. During last Fall's campaign, the President described as middle class families making less than $250,000. Many of the tax cuts don't apply to millions of families making less than $250,000. Doesn't make sense to me to call a proposal a middle class tax cut if it doesn't apply to millions of middle-class families.

And we'd like to direct that at labor and capital income earned by middle income taxpayers. Since we weren't at the negotiating table to offer these pro-growth ideas, you'll see them arise as constructive offers to improve the package before us.

Now I'll turn to some of the specific health-related provisions in the Finance Committee package.

Spending in this bill should be judged based on two criteria: will it stimulate the economy and is the money being well spent?

In committee, we aired out honest disagreements over whether several of these provisions are actually stimulative.

Improving health information technology is critical for our health care infrastructure.

I support many of the provisions that are in the Finance Committee bill.

But I have to ask: will it stimulate our economy and is it money that we should add to the deficit rather than offsetting it?

It wasn't so long ago that 16 BILLION dollars was a lot of money around here.

Providing assistance to states makes sense if we are concerned about states raising taxes or cutting spending.

But is 87 BILLION dollars the right number and is increased Medicaid spending the right way to do it?

Could we better stimulate economic recovery using all or part of that money elsewhere?

The Finance Committee package also includes a 2-year extension of our current Trade Adjustment Assistance programs.

I'm working with the Chairman to see if we can agree with our counterparts on the House Ways and Means Committee on a broader reauthorization of these programs, but that's still a work in progress.

Apart from Trade Adjustment Assistance, I'm disappointed that this Administration isn't focusing on trade as a component of the economic stimulus package. As I said above, we should heed an important lesson from the Hoover era. Economic growth comes from expanding free trade, not contracting it.

Opening up new markets for U.S. exporters should be part of the mindset to stimulate our economy.

Our pending trade agreements with Colombia, Panama, and South Korea provide significant opportunities to do just that and should be implemented as soon as possible.

As we go through the bill, our side will offer several amendments that I hope will be accepted to try to make the bill better answer the questions I have raised.

The people back home see Congress spending vast amounts of taxpayer dollars and they are counting on us to ensure their money is spent wisely not wastefully.

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