

MORNING BUSINESS

The ACTING PRESIDENT pro tempore. Under the previous order, the Senate will be in a period of morning business for debate only until 4:30 p.m., with Senators permitted to speak therein for up to 10 minutes each.

The Senator from Arizona.

WELCOMING SENATOR HELLER

Mr. KYL. Mr. President, I note that Vice President BIDEN was just here in the Chamber for the swearing-in of our newest Senator, DEAN HELLER from Nevada. I add my congratulations to now-Senator HELLER joining this body.

REDUCING THE DEBT

Mr. KYL. Vice President BIDEN has been kind enough to host discussions—starting last week and going into this week and perhaps beyond—with Members of the Senate and the House of Representatives to try to find a way to reduce the huge debt that hangs over the United States, as a prelude, I am sure he would put it, to the Congress acting on the President's request that Congress increase the debt ceiling.

There have been generally two ways suggested on how to deal with our debt. Many Democrats believe the wealthy in the United States do not pay enough taxes, and therefore one way to reduce the debt is for taxes to be increased, especially on the wealthy. Most Republicans believe that is a bad idea, that since debt is our problem and we got into debt because we have been spending too much, the better way for us to deal with the problem is to begin reducing our spending and to make sure over the years we are able to do that.

There are a couple of interesting things that have just come out in the news recently that I think bear on this argument.

A lot of folks wonder about the debt burden in the United States, and I think it is useful to point out the fact that last week the Wall Street Journal reported that the Joint Committee on Taxation found that “the percentage of U.S. households paying no federal income tax . . . reached 51% for [the year] 2009.” I think that is the first time in the history of America that over half of Americans didn't pay Federal income taxes. I do not think that is a good thing. While certainly people in the lower income brackets are not able to pay very much in the way of taxes, I think even a very small amount, an affordable amount, would be appropriate so everybody has what they call skin in the game, so everybody understands the relationship between the burdens and the benefits of government. I would not impose a significant tax on the lower half or certainly not the lower 10 percent, but I think it is important for all Americans to know we all have a stake in this, and that more than half of the people cannot just expect the so-called

wealthy to bear all of the burdens of government.

But the question remains, are American wealthy taxpayers undertaxed? I think a useful measure to look at here is a comparison with other countries, for example, the OECD countries—which stands for Organisation for Economic Co-operation and Development—are generally regarded as the most advanced economies in the world, and the United States is one of those countries.

A study that is based on 2008 statistics found that the highest earning 10 percent of the U.S. population paid the largest share among 24 countries examined, even after adjusting for their relatively higher incomes, and it concluded:

“Taxation is most progressively distributed in the United States,” the OECD concluded.

The bottom line here is that for a country to be competitive, the people who provide the capital for job creation, for economic growth, have to have some capital remaining after they have earned it in order to invest that capital, return it to their businesses, hire more people, be more productive, create more wealth, and thereby provide for the families of the people who own the businesses and, by earning more income, increase the amount the Federal Government and the State government take in as revenues.

Republicans are very happy to concede it would be helpful if the government has more revenues in order to help close this debt gap we have. The question is how we get more revenues. We believe more revenues are a function of a growing economy. Here too some statistics that just came out over the weekend, I believe it was, demonstrated that we can actually delay the increase in the debt ceiling by some period of time because revenues to the Federal Treasury have been a little higher than previously expected. Why? Because the economy grew more than expected, and as people made more money, they therefore paid more in withholding and in Federal income taxes. That is the way for the government to get more revenue—for the economy to do better, for Americans to do better.

So if you tax more the people who are the ones likely to do the investing into businesses, will you get more investment? Will you get more Federal revenue? Well, you will get a little bit more to begin with, but in the long run, you will get less. One of the reasons it is not a good idea to tax more the very people whom we are referring to in this study is because half of all the small business income reported is reported as part of the highest income tax bracket for individuals. In other words, small businesses do not pay as corporations, they pay as individuals, and when a small businessman has to report his earnings, he reports all of the income from his enterprise. A lot of that is business expense, but that is how he has to report it. So you are

talking here about half of all that income reported being taxed at a higher rate, if, in fact, the President and some of his colleagues have their way. That will reduce the amount of investment and growth in the economy and thereby make it harder for us to pay off this large debt.

The advocates of a gigantic tax increase are really very shortsighted, therefore, in assuming that if they raise tax rates, they are going to get more revenues. That is what they tried to do in Japan during the late 1990s. It did not work out. Japan went back into a deep recession, and it is not going to be possible for them to generate existing revenue with their higher tax rates.

The way you get robust growth is not with higher tax rates but with lower tax rates. A rapidly expanding economy does create new jobs and income for investment and wealth-creating enterprises, and obviously some of that wealth flows back to the government and can be used to reduce the debt.

But the policy tools we decide upon in these negotiations will have a lot to say about how we are able to reduce the debt and whether part of that will be a result of economic growth in the future. Obviously, the point here is not just to have economic growth so the Federal Government can earn more in income tax revenue but to promote American prosperity and a better future for our families.

So the question is, Will we impose tax hikes that discourage investment and punish job creation or will we make the tax system more efficient and conducive to growth?

I wish to cite a couple of studies to show why it is most important for us to focus on reducing spending rather than raising tax rates, because spending cuts, not tax hikes, are the best way to close the massive budget gap and help to produce economic growth in our country.

One study was performed by two Harvard economists, Alberto Alesina and Silvia Ardagna. By studying large-scale fiscal adjustments by wealthy developed countries from 1990 to 2007, they determined that “spending cuts are much more effective than tax increases in stabilizing the debt and avoiding economic downturns.” Moreover, they found “several episodes in which spending cuts adopted to reduce deficits have been associated with economic expansions rather than recessions.”

Two economists at Goldman Sachs, Ben Broadbent and Kevin Daly, undertook a similar study and reviewed every major fiscal correction in wealthy nations since 1975. They found:

Decisive budgetary adjustments that have focused on reducing government expenditures have (i) been successful in correcting fiscal imbalances; (ii) typically boosted growth; and (iii) resulted in significant bond and equity market outperformance. Tax-driven fiscal adjustments, by contrast, typically fail to correct fiscal imbalances and are damaging for growth.

So reducing spending was the way not only to reduce the debt of the