

# **FRESHMAN MEMBERS DAY**

---

**HEARING**  
BEFORE THE  
**COMMITTEE ON THE BUDGET**  
**HOUSE OF REPRESENTATIVES**  
ONE HUNDRED SEVENTH CONGRESS  
FIRST SESSION

---

HEARING HELD IN WASHINGTON, DC, FEBRUARY 7, 2001

---

**Serial No. 107-1**



Printed for the use of the Committee on the Budget

---

U.S. GOVERNMENT PRINTING OFFICE

WASHINGTON : 2001

70-194cc

## COMMITTEE ON THE BUDGET

JIM NUSSLE, Iowa, *Chairman*

JOHN E. SUNUNU, New Hampshire

*Vice Chairman*

PETER HOEKSTRA, Michigan

*Vice Chairman*

CHARLES F. BASS, New Hampshire

GIL GUTKNECHT, Minnesota

VAN HILLEARY, Tennessee

MAC THORNBERRY, Texas

JIM RYUN, Kansas

MAC COLLINS, Georgia

ERNIE FLETCHER, Kentucky

GARY G. MILLER, California

PAT TOOMEY, Pennsylvania

WES WATKINS, Oklahoma

DOC HASTINGS, Washington

ROB PORTMAN, Ohio

EDWARD SCHROCK, Virginia

JOHN CULBERSON, Texas

HENRY E. BROWN, Jr., South Carolina

ANDER CRENSHAW, Florida

ADAM PUTNAM, Florida

MARK KIRK, Illinois

[Vacancy]

[Vacancy]

[Vacancy]

JOHN M. SPRATT, Jr., South Carolina,

*Ranking Minority Member*

JIM McDERMOTT, Washington,

*Leadership Designee*

BENNIE G. THOMPSON, Mississippi

KEN BENTSEN, Texas

JIM DAVIS, Florida

EVA M. CLAYTON, North Carolina

DAVID E. PRICE, North Carolina

EDWARD J. MARKEY, Massachusetts

GERALD D. KLECZKA, Wisconsin

BOB CLEMENT, Tennessee

JAMES P. MORAN, Virginia

DARLENE HOOLEY, Oregon

RUSH D. HOLT, New Jersey

JOSEPH M. HOEFFEL III, Pennsylvania

TAMMY BALDWIN, Wisconsin

[Vacancy]

[Vacancy]

[Vacancy]

[Vacancy]

## PROFESSIONAL STAFF

RICH MEADE, *Chief of Staff*

THOMAS S. KAHN, *Minority Staff Director and Chief Counsel*

## CONTENTS

Hearing held in Washington, DC, February 7, 2001 .....	Page 1
Statement of:	
Hon. Edward Schrock, a Representative in Congress from the State of Virginia .....	1
Hon. Anibal Acevedo-Vila, the Resident Commissioner of Puerto Rico .....	5
Hon. Henry E. Brown, Jr., a Representative in Congress from the State of South Carolina .....	8
Hon. Jeff Flake, a Representative in Congress from the State of Arizona ..	12
Hon. Adam H. Putnam, a Representative in Congress from the State of Florida .....	15
Hon. Steve Israel, a Representative in Congress from the State of New York .....	27
Hon. Rick Larsen, a Representative in Congress from the State of Washington .....	30
Hon. Adam Schiff, a Representative in Congress from the State of California .....	32
Hon. Todd Akin, a Representative in Congress from the State of Missouri ..	35
Hon. James Langevin, a Representative in Congress from the State of Rhode Island .....	38
Prepared statement of:	
Mr. Schrock .....	3
Hon. Felix J. Grucci, Jr., a Representative in Congress from the State of New York .....	7
Mr. Brown .....	9
Mr. Flake .....	13
Mr. Putnam .....	17
Hon. Mike Pence, a Representative in Congress from the State of Indiana .....	23
Hon. John Culberson, a Representative in Congress from the State of Texas .....	26
Mr. Israel .....	28
Mr. Larsen .....	31
Mr. Schiff .....	33
Hon. Dennis Moore, a Representative in Congress from the State of Kansas .....	35
Mr. Akin .....	37
Mr. Langevin .....	40
Hon. Rob Simmons, a Representative in Congress from the State of Connecticut .....	42



## **FRESHMAN MEMBERS DAY**

---

**WEDNESDAY, FEBRUARY 7, 2001**

HOUSE OF REPRESENTATIVES,  
COMMITTEE ON THE BUDGET,  
*Washington, DC.*

The committee met, pursuant to call, at 11:03 a.m. in room 210, Cannon House Office Building, Hon. Jim Nussle (chairman of the committee) presiding.

Members present: Representatives Nussle, Sununu, Gutknecht, Fletcher, Schrock, Culberson, Brown, Crenshaw, Putnam, Pence, Spratt, Hooley, McCarthy, and Flake.

Chairman NUSSLE. The committee will come back into order, please.

Today we will be having the first of a series of hearings involving budget and budget priorities. Today we have invited freshman Members of the 107th Congress to come before us to testify on behalf of themselves, their districts, some of the priorities that maybe they have heard about as they campaigned over this last campaign season.

I think oftentimes in the Budget Committee and other committees of Congress we tend to rely on some celebrity-type witnesses who are often requested to come and give us their opinions, and we forget that within our own conferences and caucuses we have Members with a vast array of experiences from a number of different industries and career backgrounds as well as perspectives that they share with us from their constituents. So we wanted today to invite the freshman Members of the 107th Congress class to come before us and to present testimony.

The first witness today will be the Honorable Ed Schrock from Virginia, a member of this committee and president of the freshman class for the Republicans of this year. Welcome both to the committee and to our witness table. Your entire statement will be part of the record without objection, and you have 5 minutes to summarize your testimony, Mr. Schrock.

### **STATEMENT OF HON. EDWARD SCHROCK, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF VIRGINIA**

Mr. SCHROCK. Thank you, Mr. Chairman, and members of the committee that are still here. It is an honor for me to be here to detail the priorities shared by the 28 Republican freshman Members of Congress.

As you know, the budget resolution frames our agenda and priorities on both taxes and spending for the coming fiscal year and be-

yond. I will first discuss our priorities on tax relief for every American.

In our view, President Bush's tax relief promoting is fair, responsible and allows the typical American family to keep at least \$1,600 more of their own money. The President's tax proposal will cut taxes for everyone who pays income taxes, will spur economic growth, and tear down the high tax barriers that keep low-income Americans from accessing the middle class.

Specifically, we support the following provisions: Replace the current five-rate tax structure with four lower rates—10, 15, 25 and 33 percent; double the child tax credit to \$1,000; eliminate the marriage penalty; eliminate the death tax; expand the charitable deduction to include those who file with a 1040 EZ, or short form; and make the research and development tax credit permanent.

We strongly support the President's tax plan because low- and middle-income families are the biggest winners. For instance, one in five taxpaying families with children will no longer pay any tax at all, completely removing 6 million American families from the tax rolls. A family of four making \$35,000 would get a 100 percent Federal income tax cut. A family of four making \$50,000 a year would receive a 50 percent cut, receiving at least \$1,600. The marginal income tax rate on low-income families will fall by more than 40 percent.

There is no doubt that American families need a tax cut. Indeed, the reason we are enjoying surpluses is that we are taxing too much. We simply must cut taxes for the following reasons:

The current Tax Code is unfair. Under the current system, a single mom making \$22,000 a year pays a higher marginal tax rate than someone making \$200,000 a year.

Federal taxes are the highest ever during peacetime. Americans pay more in taxes than they spend on food, clothing, and housing combined. Americans work more than 4 months per year just to pay their tax bills. Recent layoffs by businesses of every size prove that the American economy needs a boost and quickly.

Many of us also support other tax cuts, including education expense tax credits, expanding Medicare savings accounts, medical savings accounts, IRA expansion of pension reform, repeal of the Spanish-American War phone tax, small business tax cuts and tax cuts in the capital gains rates.

But, to reiterate, we unanimously support President Bush's tax proposal.

At this point in my remarks I would like to turn to our priorities on Federal spending. For many of us, our highest spending priority is national defense. The Congress of the United States is constitutionally charged with providing for the common defense, raising and supporting armies, and providing and maintaining a navy. In our view, spending on national defense must be increased to provide for pay raises for all military personnel, force modernization and maintenance, overseas deployments, and the acquisition of modern weapons systems that will maintain our military supremacy on seas, on land, and in the air.

Social Security and Medicare must be financially secured for future current and future generations. We support securing Social Security and Medicare surpluses so that these funds cannot be

used on general appropriations. However, there is a tremendous concern about the Department of Health and Human Services' Office of Inspector General report that disclosed waste, fraud and abuse totaling \$13.57 billion, over 8 percent, of the amount spent on fee-for-service reimbursements at the Health Care Financing Administration. In order to maintain the integrity of Medicare and Social Security, strong and successful efforts must be undertaken by all appropriate Federal agencies to ensure that Medicare and Social Security fraud is eliminated.

Furthermore, it appears to us that entitlement reform is critical to the long-term financial viability of the United States Government. Social Security, Medicare, Medicaid, welfare, and other mandatory Federal entitlements now total more than \$1 billion per year. Because of our aging population, the projected growth rate of these entitlement programs is staggering. Congress must work in a bipartisan manner with the President to reform these entitlements before they consume even more of our tax dollars and make tax increases inevitable.

In the area of education spending, we support local control of schools. Federal education spending should require accountability measures at the State level. However, Federal education dollars otherwise should come with little or no strings attached. As a former State legislator, I know parents, teachers and local schools can determine what is best for their own community. While we support increased education spending at the Federal level, these new funds should not be accompanied by new mandates that stifle creativity and burden our local schools.

Finally, I would like to discuss the Federal debt. We applaud Congress' record of paying down \$625 billion in debt over the past 4 years. The Republican freshman class is strongly committed to continuing these efforts to reduce the Federal debt in a responsible manner. The near elimination of the Federal debt will result in lower interest rates and would provide, in essence, another tax cut for families who mortgage homes and finance the purchase of cars.

In conclusion, Mr. Chairman, we stand ready to work with you and this committee to develop a budget resolution that provides tax relief for every American family and a spending blueprint that will strengthen America's military, improve education for our children, pay down the national debt, and protect Social Security and Medicare.

Thanks for this opportunity to appear before you.

[The prepared statement of Congressman Schrock follows:]

PREPARED STATEMENT OF HON. EDWARD SCHROCK, A REPRESENTATIVE IN CONGRESS  
FROM THE STATE OF VIRGINIA

Mr. Chairman, members of the committee, it is a tremendous honor to be here today to detail the priorities shared by the 28 Republican freshmen Members of Congress.

As you know, the Budget Resolution frames our agenda and priorities on both taxes and spending for the coming fiscal year and beyond.

I will first discuss our priorities on tax relief for every American.

In our view, President Bush's tax relief proposal is fair, responsible and allows the typical American family to keep at least \$1,600 more of their own money.

The President's tax proposal will cut taxes for everyone who pays income taxes, spur economic growth and tear down the high tax barriers that keep low income Americans from accessing the middle class.

Specifically, we support the following provisions:

- Replace the current five rate tax structure with four lower rates—10, 15, 25 and 33 percent.
- Double the child tax credit to \$1,000.
- Eliminate the marriage penalty
- Eliminate the death tax
- Expand the charitable deduction to include those who file with a 1040 EZ or Short form.

- Make the research and development tax credit permanent.

We strongly support the President's tax plan because low and middle-income families are the biggest winners.

For instance,

- One in five taxpaying families with children will no longer pay any income tax at all—completely removing 6 million American families from the tax rolls.
- A family of four making \$35,000 would get a 100 percent Federal income tax cut.
- A family of four making \$50,000 a year would receive a 50 percent cut—receiving at least \$1,600.
- The marginal income tax rate on low-income families will fall by more than 40 percent.

There is no doubt that American families need a tax cut. Indeed, the reason we're enjoying surpluses is that we are taxing too much. We simply must cut taxes for the following reasons:

- The current Tax Code is unfair. Under the current system, a single mom making \$22,000 a year pays a higher marginal tax rate than someone making \$200,000 per-year.
- Federal taxes are the highest ever during peacetime.
- Americans pay more in taxes than they spend on food, clothing and housing combined.
- Americans work more than 4 months per year just to pay their tax bills.
- Recent layoffs by businesses of every size prove that the American economy needs a boost—quickly.

Many of us also support other tax cuts including education expense tax credits, expanding Medical Savings Accounts, IRA expansion and pension reform, repeal of the Spanish American War phone tax, small business tax cuts and cuts in the capital gains tax rates. But to reiterate, we unanimously support President Bush's tax proposal.

At this point in my remarks I would like to turn to our priorities on Federal spending.

For many of us, our highest spending priority is national defense. The Congress of the United States is constitutionally charged with providing for the common defense, raising and supporting armies, and providing and maintaining a Navy.

In our view, spending on national defense must be increased to provide for pay raises for all military personnel, force modernization and maintenance, overseas deployments, and the acquisition of modern weapons systems that will maintain our military supremacy on the seas, on land and in the air.

Social Security and Medicare must be financially secured for current and future generations. We support securing Social security and Medicare surpluses so that these funds cannot be used on general appropriations.

However, there is tremendous concern about a Department of Health and Human Services Office of Inspector General report that disclosed waste, fraud and abuse totaling \$13.5 billion, or about 8 percent, of the amount spent on fee for service reimbursements at the Health Care Financing Administration.

In order to maintain the integrity of the Medicare and Social Security systems, strong and successful efforts must be undertaken by all appropriate Federal agencies to ensure that Medicare and Social Security fraud is eliminated.

Furthermore, it appears to us that entitlement reform is critical to the long-term financial viability of the United States government. Social Security, Medicare, Medicaid, Welfare and other mandatory Federal entitlements now total more than \$1 trillion per year.

Because of our aging population, the projected growth rate of these entitlement programs is staggering. Congress must work in a bipartisan manner with the President to reform these entitlements before they consume even more of our tax dollars and make tax increases inevitable.

In the arena of education spending, we support local control of schools. Federal education spending should require accountability measures at the state level; however, Federal education dollars otherwise should come with little or no strings attached.



As a former state legislator, I know that parents, teachers and local schools can determine what is best for their own community. While we support increased education spending at the Federal level, these new funds should not be accompanied by new mandates that stifle creativity and burden our local schools.

And finally, I would like to discuss the Federal debt. We applaud Congress's record of paying down \$625 billion in debt over the past 4 years. The Republican freshman class is strongly committed to continuing these important efforts to reduce the Federal debt in a responsible manner.

The near elimination of the Federal debt will result in lower interest rates and would provide, in essence, another tax cut for families who mortgage homes and finance the purchase of automobiles.

In conclusion, Mr. Chairman, we stand ready to work with you and this committee to develop a budget resolution that provides tax relief for every American family and a spending blueprint that will strengthen America's military, improve education for our children, pay down the national debt and protect Social Security and Medicare.

Thank you, Mr. Chairman for the opportunity to address the Budget Committee.

Chairman NUSSLE. Thank you, Mr. Schrock. Are there questions for this witness from members of the committee?

If not, thank you very much for your attendance and for your testimony.

The next witness—and I may ask you for a little help with the pronunciation; we have not met before, and this is one of the advantages of having a hearing such as this—the Honorable Anibal Acevedo.

Mr. ACEVEDO-VILA. That's fine.

Chairman NUSSLE. And do you add the Vila at the end?

Mr. ACEVEDO-VILA. That is the way we do it down in Puerto Rico, but it is fine if it is only Acevedo.

Chairman NUSSLE. We appreciate your coming before us today. You are obviously from Puerto Rico, as you stated. We appreciate your attendance and your testimony. Your written statement, without objection, will be made part of the record and you may summarize for the 5 minutes. Welcome.

#### **STATEMENT OF HON. ANIBAL ACEVEDO-VILA, THE RESIDENT COMMISSIONER OF PUERTO RICO**

Mr. ACEVEDO-VILA. I would like to thank the chairman, the ranking member, and the members of the Budget Committee for this opportunity to testify here today.

As the new Resident Commissioner from Puerto Rico, I am pleased to offer some ideas on the budget for fiscal year 2002. This is a moment of great challenges and, at the same time, great opportunities for this Congress and the Nation. We have a balanced budget and a surplus which provide new alternatives that some years ago were not available. On the other hand, there are clear indications of an economic slowdown that has to be remedied by Congress.

There is a consensus that it is time to use this surplus to reward taxpayers with a tax cut. The issue is how much to cut and how it should be done to forge real economic growth. As the representative of Puerto Rico before Congress, I am here today to work in a bipartisan fashion to guarantee that the 2002 budget will help the 4 million U.S. citizens living in Puerto Rico. We have before us a unique opportunity to use the current budgetary circumstance as a tool for economic development through the creation of jobs and investment in businesses in Puerto Rico.

During the period of 1993 to 1996, Congress took the necessary steps to balance the budget and eliminate the deficit. Puerto Rico paid substantially during this process. In 1993, Congress passed the Omnibus Reconciliation Act, which included a provision that substantially curtailed the tax incentives provided by Section 936 of the Internal Revenue Code to U.S. companies doing business in Puerto Rico.

In 1996, Congress enacted another set of amendments that eliminated all incentives for new or expanded business operations and investment in Puerto Rico. Congress carved out a separate section of the Internal Revenue Code, Section 30A, for the possession's tax credit, which is applicable only to corporations with operations in Puerto Rico during the phase-out periods. As of today, Puerto Rico has no Federal incentive to create new jobs, and those that apply to companies already doing business in the island are set to expire in the year 2005.

The negative consequences of the decisions taken in 1993 and 1996 are clear. The phase-out of these incentives is having disastrous effects on the Puerto Rican economy. In the last 4 years, more than 17,000 jobs have been lost in the manufacturing sector as a direct result of the phase-out, and Puerto Rico has not been able to attract significant new economic investment to build upon. Many of these jobs are moving out of U.S. jurisdiction to countries like Malaysia and Singapore. Employment and wages by American companies are a critical part of Puerto Rico's manufacturing sector, and the manufacturing sector is the most important sector of Puerto Rico's economy.

The results are clear. Today, we enjoy a balanced budget and a rather large surplus. But my people don't have the jobs. While the taxpayers in the U.S. have earned tax relief, so too have Puerto Ricans who sacrificed during efforts to balance the budget and grow the Federal budget surplus. It is time to provide my constituents with tax relief through incentives for job creation in the Tax Code.

Congress has been there for Puerto Rico in the past. In 1976, Congress enacted the special tax exemption under Section 936 of the Internal Revenue Code. This was part of an effort to attract U.S. companies to Puerto Rico to create jobs for the island's residents. At the time, Puerto Rico's economy was suffering an economic slowdown, amidst recession, and unfavorable tax changes in the United States. Unemployment rates started to increase to alarming levels. A number of foreign countries became more attractive to U.S. businesses because they offered lower wage rates and more favorable local tax incentives. Section 936 was an attempt to reverse that trend, and it worked. During the 1980's and early 1990's we were able to strengthen Puerto Rico's economy thanks in great part to the jobs created by 936 companies.

As I mentioned earlier, one of the reasons to eliminate tax incentives for U.S. companies in Puerto Rico was to balance the budget. Now we are faced with a surplus. I will not ask this Congress to reenact Section 936. What I am asking is to work toward new and creative incentives to promote job creation and investment in Puerto Rico. If there are no new jobs and the companies that we have depart for foreign destinations, our best resource also, our people,

will be wasted. Clearly this would be a setback for both Puerto Rico and the U.S.

As Congress did during the economic downturn in the 1970's, I urge you to consider new and creative ways to foster the economic development of Puerto Rico and make them part of the 2002 budget. The new administration in Puerto Rico is crafting this new alternative that will be presented to the President and Congress in the coming weeks. I have already discussed this priority with influential Members of this body and the Senate, and enjoyed a recent conversation with President Bush about this important issue. Our proposals will be supported by all the economic sectors on the island, be fiscally responsible, simple and targeted to promote competition with foreign jurisdictions. For now, I ask you to be open to these kinds of incentives that are so necessary for our economy as a whole and for the creation of sustainable and decent-paying jobs for Puerto Rico.

Again, thanks, Mr. Chairman, ranking member and other members.

Chairman NUSSLE. Thank you very much for your testimony.

Are there questions for our colleague? If not, thank you.

The next witness who was scheduled to testify today is the Honorable Felix Grucci from New York. It is our understanding that his mother-in-law passed away and, as a result, he will not be here to testify today. Our thoughts and prayers are certainly with the entire Grucci family and with his wife's family.

Without objection, his testimony will be submitted for the record at this point.

[The prepared statement of Congressman Grucci follows:]

PREPARED STATEMENT OF HON. FELIX J. GRUCCI, JR., A REPRESENTATIVE IN  
CONGRESS FROM THE STATE OF NEW YORK

Mr. Chairman, ladies and gentlemen of the House Budget Committee, thank you for giving me the opportunity to submit this written statement on behalf of the citizens of the First Congressional District of New York. Unfortunately, I am unable to attend today's proceedings, due to the death of my mother-in-law.

Our Nation is at a critical juncture. Over the last several years, small business owners, entrepreneurs, and hard working middle class families fostered a strong national economy, and created a historic tax surplus projected by the Congressional Budget Office to be an estimated \$5.6 trillion.

However, economic storm clouds are on the horizon. Storm clouds that threaten the economic viability of hundreds of business and thousands of jobs and opportunities.

Our mission is certain.

While our small business owners, high-tech industry leaders, manufacturers, farmers and hard working families do their part day in and day out, from sunrise to sunset, to sustain a vibrant economy, it is up to their government—this Congress—to proactively implement reasonable tax relief, reduce our national debt, and protect critical programs like the Social Security Trust Fund.

We must prioritize the allocation of Federal funds to where they will best serve our citizens. We need additional resources to improve our education system, protect our environment, improve our infrastructure, strengthen our national defense, and enact a Medicare Lock Box that ensures affordable health care is available to each and every senior citizen.

As a locally elected town supervisor, I saw first hand how tax cuts and controlled spending helped spur our local economy in the First District of New York. By placing the taxpayers money back where it belongs—in their pockets—we were able to create more than 20,000 new jobs on Eastern Long Island.

The time is now to give the taxpayers back their money. They created the tax surplus. They should have it returned. And in the process, we should once and for all

eliminate unfair taxes that penalize middle class working families, small business owners, farmers and our newest entrepreneurs.

The time is now to repeal the marriage penalty tax, which would save the average working family about \$1,400 per year. The time is now to protect farmers and small business owners from being taxed twice by finally eliminating the death tax.

And the time is now to remove obstacles from young entrepreneurs who emerge from colleges, universities, and trade schools with bright ideas and the business ventures for the 21st Century.

This surplus belongs to the people. They created it. It's responsible and the right thing to do to return it to them.

We can do more. We can provide reasonable tax relief, and take the necessary actions of protecting the Social Security Trust Fund, by locking it away from bureaucrats who, would rather use the people's money on wasteful programs, and ensuring it is there for seniors today, and the retirees of tomorrow.

We can take this opportunity to improve the educational system in our nation so no child is left behind. With additional resources to our schools, we will be able to reduce class size and put our parents, school boards and teachers back in charge of the classroom.

Our national surplus affords this Congress the unique opportunity to enter into public/private partnerships to protect and preserve our environment. By working hand in hand with property-owners, and State and local governments, we can pool our resources to acquire more open space from Long Island to the pacific coast.

It's a successful formula that has worked to protect our drinking water on Eastern Long Island, and one that will prove beneficial throughout all of the communities and neighborhoods of our great nation.

With a commitment to take these critical steps today, in this Congress—the people's House—in conjunction with the Senate and President Bush, will jump-start our economy, decrease unemployment, create jobs as well as new opportunities. Put more money in the hands of the taxpayers, because they know better than any government bureaucrat how best to spend it. Foster an environment where ideas grow into successful new businesses, new jobs, and new opportunities.

By taking these steps now, we will successfully meet the challenges we all face. It will be a journey along a path of new promise, new hope, and a strong vibrant economy.

Mr. Chairman, ladies and gentlemen of the House Budget Committee, and my fellow colleagues, thank you for this opportunity.

Chairman NUSSLE. The next witness is a colleague from the committee, Mr. Henry Brown from South Carolina, who, as I stated earlier, was the former chairman of the Ways and Means Committee which handled budget issues in South Carolina. I certainly hope that he will be able to share with us some of the wisdom of the States. We often look to States as the laboratories.

We are certainly honored to have you in the Congress and on this committee and look forward to your testimony. Your entire testimony will be made a part of the record and you may summarize.

Mr. Brown.

**STATEMENT OF HON. HENRY E. BROWN, JR., A REPRESENTATIVE IN CONGRESS FROM THE STATE OF SOUTH CAROLINA**

Mr. BROWN. Thank you very much, Mr. Chairman and Mr. Spratt. It is certainly a pleasure and a special honor for me to serve on this committee.

It was a significant time in my life to have the privilege to chair the Ways and Means Committee for South Carolina for 5 years. We found South Carolina in a state of flux. We had lost our triple A credit rating. We were having mid-year budget cuts. The economy was going great, but the government was spending more than the revenue coming in, so we were in a state of real confusion.

It is a real pleasure to come and try to address some of those same needs here at the Federal level. Because we did regain our triple A credit rating, we were able to balance the budget and, at

the same time, we were able to make tax cuts. And I think that is significant as we take a look at the budget process here.

I am pleased that we will be able to send back some of those revenues that those taxpayers have sent to us in excess of the amount that is needed to fund government. I am pleased, Mr. Chairman, to work with you to try to make some of those things happen.

Our freshman president summed up a lot of the priorities that we established in the freshman class. I won't belabor the committee by going through this again; neither will I present my formal presentation, which I submitted in writing earlier, but I did want to come just to say that I am pleased to be a part of this process, and I recognize that there are a lot of issues that we need to deal with, like the marriage penalty tax, the inheritance tax, and the death tax.

Also, I would hope that the committee would look at the process of returning some of the monies back to the taxpayers—that tax increase that was imposed upon the seniors which taxed 85 percent of their Social Security proceeds. I would hope this committee would take a look at trying to repeal that or at least go back to 1993, where 50 percent of those proceeds were taxed.

With that, Mr. Chairman, I am open for any questions.

[The prepared statement of Congressman Brown follows:]

PREPARED STATEMENT OF HON. HENRY E. BROWN, JR., A REPRESENTATIVE IN  
CONGRESS FROM THE STATE OF SOUTH CAROLINA

Mr. Chairman, I appreciate this opportunity to share with you and this committee the legislative priorities of my constituents in the First District of South Carolina. Just a few years ago, our Federal Government was facing huge annual budget deficits and an ever increasing national debt. Because of the hard work and productivity of millions of Americans and fiscal discipline of recent Congresses, we are looking at an unprecedented level of surplus revenues.

First, let me state that my constituents in South Carolina's Low Country expect this Congress to continue to spend their hard earned tax dollars wisely and responsibly. This is not the time to reverse course and embark upon another spending spree that would jeopardize the progress we have made in paying down our national debt and strengthening the foundations of our economy.

There is no question we have serious challenges before us, improving the quality of education throughout this land, safeguarding Medicare and Social Security for today's senior citizens and future generations, and rebuilding our military. It is my view, Mr. Chairman, we can meet these challenges without risking a repeat of budget deficits and a national debt out of control. I am also convinced we owe our fellow citizens a more effective, responsive Federal Government, and finally, long overdue tax relief.

As a former Chairman of South Carolina's House Ways and Means Committee, I have seen first hand that it is possible to deliver substantial tax relief without compromising the quality of much needed government services and programs. With the Congressional Budget Office projecting total surpluses of \$5.6 trillion over the next 10 years, I believe this Committee has an opportunity to take the first steps toward reducing individual income taxes which are at the highest level ever. The fact is that my constituents' taxes are growing faster than our economy. According to the CBO, tax revenues increased by 10 percent last year while our economy grew at 5 percent. No doubt we have Federal programs and services that will require additional resources. It is difficult to explain why Americans are continuing to pay record high taxes at a time of peace and prosperity.

Like many of my colleagues, I believe we have a great opportunity to reduce the tax burden and work for more fairness in our tax code. Let's finish the job that was begun in the last Congress to eliminate the marriage penalty. As Congressman Schrock mentioned earlier, this change ought to be one of our highest priorities. Also, the death tax needs to be buried once and for all \* \* \* why should we penalize the millions of small business owners and farmers who have worked hard all their lives? Finally, Mr. Chairman, I want to work with you and my colleagues in taking a hard look at repealing the 1993 tax increase on Social Security benefits. It seems

to me that this is another example of our Federal Government discouraging hard work and initiative.

Once again, Mr. Chairman, thank you for this time for me share my views. I look forward to working with you and the other members of this committee in fashioning a responsible and forward looking budget.

Chairman NUSSLE. I thank you. Are there questions for this witness?

Mr. SUNUNU. Mr. Chairman.

Chairman NUSSLE. Yes, Mr. Sununu.

Mr. SUNUNU. Congressman, can you talk a little more about the scope of the tax cut that was put into place in South Carolina, what the implications of that tax relief were when it went into place, how revenues changed in the years following the tax relief, and an assessment of the current state of the budget in South Carolina?

Mr. BROWN. We took a look at the total tax system and we felt like one of the erroneous taxes we had was the school operating property tax, particularly as it impacted the senior citizens. So the first rush of returning some of the taxpayers' money was to give them relief. For the first \$100,000 of the assessed value of their home, we would return back to those locals the tax equivalent of \$100,000, which the first year was like \$202 million and last year, \$264 million. That was the first cut.

Then, of course, we had several other cuts we made through that 5-year period when I chaired the committee. One was to raise the tax relief on senior citizens at 65, that they would not have to pay income tax on the first \$15,000 of their income, which was a real boost to that segment of the society.

We also did something with the child tax credit; we doubled that.

Anyway, there were several initiatives, and it really did spur the economy because all of a sudden the taxpayers had \$200 million more they could spend to stimulate the economy, to enhance the economy, rather than go into the growth of, say, government. So it was a boom.

I will have to report though that this year South Carolina is faced with a budget shortfall for the first time in probably 7 or 8 years. So I am real pleased to be up here where there is lots of money.

Congressman Spratt, down in South Carolina, now is a good time to leave.

Mr. SPRATT. You left town just in time.

Mr. BROWN. Yes, sir, I think so.

Mr. SPRATT. Listen, what is the problem in South Carolina? Is it because of tax cuts that there is a diminishment of revenues, or is there a downturn in the economy that is causing this fall-off in revenues in South Carolina? Our State legislator right now, Henry, is glad to be here because we are coping with the problem of 15 percent across-the-board cuts as we speak.

Mr. BROWN. I think what happened is we had gotten too complacent in our good economy, Congressman Spratt. We were having surpluses of a couple hundred million dollars; every year we would have to make supplemental appropriations to be able to spend those surplus items. And I think what happened, the legislature got caught in the thought that we were always going to have \$200 million worth of surplus each year, so they started spending recur-

ring revenue in one-time appropriations. And I think this is where we have come to.

We actually have now about \$500 million worth of those recurring items that is built into the base of government, which is not really recurring each year. I think that is the real shortfall in the process. It is—the lack of budget restraints is what has actually brought us into this position.

Chairman NUSSLE. Mr. Gutknecht.

Mr. GUTKNECHT. Could I tag onto that? I was reminded, though, of the story of the old Indian chief who once said the effectiveness of a rain dance is determined largely by the timing.

Mr. BROWN. That is a good saying.

Mr. GUTKNECHT. As the former chairman of the Ways and Means Committee down in South Carolina, how much did you allow the total State budget to increase by in those years? Do you remember the numbers or the percentage?

Mr. BROWN. Probably somewhere in the 6 percent range.

Mr. GUTKNECHT. Per year?

Mr. BROWN. Yes.

Mr. GUTKNECHT. Because I have this crazy notion that government's budget should not grow any faster than the average family budget.

Mr. BROWN. That's correct, 3 percent. I think we were growing faster than the CPI.

Mr. GUTKNECHT. That is something I hope we can—as members of this committee, can get back on course. Because for several years this committee did a pretty good job of reining in some of our friends on other committees as well as some of our colleagues in the other body. The last couple of years we have slid backwards just a bit.

It seems to me this committee ought to sort of hoist that banner high, that there is no reason the Federal budget ought to grow any faster than the average family budget.

Thank you.

Mr. BROWN. I think that is the exciting thing about this budget process here. We actually can now, by reducing the tax tables, require less income coming in so that we can adjust that exceeding growth.

Chairman NUSSLE. Thank you.

Any other questions for members?

I have a question. I was just curious how you handle emergencies in South Carolina? Do you have a rainy day account? Some States do that. And what would be your advice with regards to handling of emergencies?

Mr. BROWN. We have two trust funds we set up. One we call the capital reserve fund, which is 2 percent of the revenue from last year. The other is a general reserve fund, which is 3 percent. And those monies are held in trust in case there is a shortfall.

We have a balanced budget amendment, which means we are required to balance that budget each year. This prevents any shortfall that might come. We attach those trust funds before we actually make the budget cuts.

Chairman NUSSLE. What are the safeguards on the general fund, emergency funds? In what ways do you either define emergencies,

in order to prevent raiding of that fund; or how is it managed so that it is not just dipped into without discretion?

Mr. BROWN. The general reserve fund is pretty restricted. You can only qualify to spend those monies if in fact there is a midyear cut.

The capital reserve fund is a different item. It is 2 percent money we set aside. In fact, if we don't have a shortfall in that particular budget year, then we are able to appropriate those items at the end of the year, call them capital reserve, which means they should only be spent for capital items.

But this is the problem—in answer to Mr. Spratt's question earlier, this is a problem we have gotten ourselves into. We did not adhere to the rules of that fund, so they started spending those; instead of on one-time items, capital items, they started spending them on recurring items, and this is where we got ourselves into trouble.

Chairman NUSSLE. Any other questions for this witness?

Thank you very much for your testimony and for your service on the committee. We look forward to that.

Mr. BROWN. Thank you. My pleasure.

Chairman NUSSLE. Because of Mr. Grucci's cancellation, and one other, we are waiting for a couple of members that are on their way, and as soon as they arrive, we will accept their testimony. [Brief pause.]

Good morning.

Mr. FLAKE. Good morning.

Chairman NUSSLE. The next witness before the committee is the Honorable Jeff Flake from Arizona. We appreciate your coming before the committee to give us your thoughts about budget priorities for the year. Your entire testimony will be submitted for the record, and without objection you may use your time to summarize what you would like to tell us.

So welcome to the Budget Committee. We look forward to your testimony.

#### **STATEMENT OF HON. JEFF FLAKE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ARIZONA**

Mr. FLAKE. Well, thank you very much. I really appreciate the opportunity. I was just elected this past year, and so I think what the voters and Americans need is fresh in my mind.

Certainly, in this case, I think that we are standing on the verge of great opportunity concerning fiscal policy. We need dramatic and substantial tax reform and relief, and I believe that the President's package is a great place to start.

I think the President is right when he says that all Americans who pay income taxes ought to get tax relief. I think that is a statement that we can all live with. It certainly cuts across the class warfare that will certainly come as these budget priorities are discussed. Federal tax revenues consume more than 20 percent of the economy's output. That is the highest since World War II. We are certainly in line for tax relief.

Also, if we look across the country—and this is true in my district in Arizona as it is elsewhere—companies are laying off workers. We are in a downturn here, and we need substantial tax relief,



not just because it is not right for government to take 40 percent of one's income, but because giving people some of their money back is the best way to jump-start the economy. So I am definitely in favor of that as the highest budget priority, to actually return money into the taxpayer's pocket.

There will doubtless be people who say we cannot afford to do this. I think if we cannot afford to now, there will never be a time when we can afford to cut taxes. The planets are aligned just right. We need employers to employ, investors to invest and consumers to consume, and the best way to do that is to return money. We have a projected surplus of \$5.6 trillion over the next 10 years and that begs for substantial relief.

I encourage you to follow the lead of the American people. When they set their household budgets, they say, we need relief here and relief there and we have these priorities. I think our priorities ought to be the same. We ought to pay off debt when we can, and we also ought to put money aside, and we also ought to do those things we know are going to start the economy. I hope that this committee considers as it prepares the budget that we need to leave room for this substantial tax cut.

This morning, along with a number of my colleagues, we launched an initiative to actually have a bill much larger than the President's tax cut. I think that the President's tax cut is a great place to start, but that we shouldn't stop there. An area that could use some relief is in the area of capital gains. We learned in 1997 that when we cut capital gains rates then the economy is spurred, and it doesn't have a negative impact on revenue coming in for government.

I would just summarize by asking the committee to support this kind of tax policy as it sets the spending limits for the coming year, and I appreciate this opportunity. Thank you again.

[The prepared statement of Congressman Flake follows:]

PREPARED STATEMENT OF HON. JEFF FLAKE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ARIZONA

Mr Chairman, I am pleased to speak to you and the rest of the committee as you consider the policies and priorities that will guide the shaping of the Federal budget.

I believe this country is standing at the verge of a great opportunity concerning fiscal policy. We have the opportunity as a Congress to reverse and undo some of the most stifling policies in our Nation's history.

I'm referring of course to our tax code. Mr. Chairman it is clear to me that the American people are taxed far too much.

Federal tax revenues consume more than 20 percent of the economy's output.

This is the highest percentage of taxation the country has ever had in peacetime.

There will doubtless be objections to even the idea of cutting taxes, with one of the cries heard in these halls being "we can't afford to cut taxes."

Leaving aside the obvious fact that this is just another way of saying "We don't want to spend less money," as we move into what is undoubtedly a period of economic slowdown, the clear answer to that cry is

"We can't afford not to cut taxes."

We need to empower employers to employ, investors to invest and consumers to consume.

There is nothing about having more money in the Federal coffers that helps the economy grow.

With a projected surplus of 5.6 trillion dollars over the next 10 years, it would be criminal not to enact a substantial, across-the-board tax cut.

We must cut taxes because we can, and because we should. It truly is, the right thing to do by our economy.

I wanted to make this presentation to the House Budget Committee because of the crucial role you play in setting the tone for this process.

Mr. Chairman, I respectfully encourage you to follow the lead of the American people when they set their household budgets.

Our constituents don't determine how much money they want to spend, and then go out and try to generate the income to match it. They look at their income level and then determine how much they can spend.

Of course, the added rub of this is that the "income" we get is taken straight from the labors of the American people, and the more we take, the less they are able to do the things that drive our national economic state.

I hope the committee will consider this as it prepares the budget, and that the revenue allocations you allot will reflect the need for a major tax cut.

Our national economy is crying out for a large, pro-growth tax cut.

This morning I have, along with a number of my colleagues, announced the drafting of such a bill. It protects Social Security and Medicare and is fair, comprehensive and substantial.

Most importantly, it is needed.

I ask that the committee support this kind of tax policy as it sets spending levels for the coming fiscal year. Thank you.

Chairman NUSSLE. Thank you very much.

In addition to taxes, do you have any advice for us on priorities when it comes to programmatic changes or priorities for either additional spending or reforms that you would like to point out from your testimony?

Mr. FLAKE. I certainly think that the area of defense and the military needs to be strengthened. I think it has been discussed in the Conference and in just about every forum I have been in that we need to make that a priority, of strengthening the military and making sure our men and women in service are treated fairly. So I would certainly think that is a priority.

In the area of education, I would hope that the priority isn't so much to see where we can spend extra money, but actually to see where we can increase flexibility for the States as they carry out their own priorities in education. So education is a major area.

I would also like to see, as we move forward with some of the entitlement programs, that we leave room to get a start on what President Bush talked about during the campaign; that we actually move toward allowing Americans to invest some of their own savings in personal retirement accounts. So to the extent we need to set aside money to jump-start that process, I certainly think that is a great place to start.

Chairman NUSSLE. Coming from Arizona, you have a lot of folks from Iowa that went down there to retire. You have more than we would like to send you, I might add. We would like to keep a few of them in the State, but your weather is slightly better than we have, during this time of year in particular.

Do you have any advice for us in the areas of Social Security and Medicare? Clearly you have a constituency there that I would suspect would be concerned about those two programs as we move forward. Do you have any advice for us in those areas?

Mr. FLAKE. Sure. I think the budget priorities that have been outlined so far, that we protect the Social Security surplus and use it only for Social Security, and the same with Medicare, I think that is something that ought to be honored.

My constituents, a number of whom are your constituents part of the year, and many other Members of Congress here, certainly have voiced that to me throughout the campaign; and I continue to hear that. So, yes, that is a priority.

Chairman NUSSLE. Thank you.

Are there any other members who have questions?

We appreciate your testimony and welcome to the Congress. We look forward to working with you as we try to formulate our priorities.

Mr. FLAKE. Thank you.

Chairman NUSSLE. Thank you very much.

Our next witness is a new member—not only a new Member of Congress, but a new member of the committee from the State of Florida, Adam Putnam.

And we not only welcome you to the Budget Committee as a member, but we welcome you here as a witness to give us your thoughts on budget priorities for the year. Your entire testimony will be made part of the record, and you may proceed during your 5 minutes as you would like. Welcome.

**STATEMENT OF HON. ADAM H. PUTNAM A REPRESENTATIVE  
IN CONGRESS FROM THE STATE OF FLORIDA**

Mr. PUTNAM. Thank you, Mr. Chairman, ranking member, and fellow members of the committee. I really am old enough to be here, I promise you.

Mr. SPRATT. I just said, Mr. Putnam, to the chairman that either we're getting older or they're getting younger; I'm not sure which. But welcome.

Mr. PUTNAM. Well, the view from this witness table is no different than it is from the freshman spot on the committee. It is a long way up there.

I thank you for providing me this opportunity to share my interests and priorities for this committee with you. Put simply, my priority is not a request for any new program but a request that we begin a process, the fruits of which may not be seen for decades.

Just as we seek a bipartisan consensus on critical budget issues, such as the use of the existing tax surplus to fund national priorities, tax reform and reduction, and keeping Social Security and Medicare solvent and relevant, so we should also seek a generational consensus on these same issues.

We particularly need to seek this consensus on Medicare and Social Security because together they consume 33 percent of the Federal budget and constitute the largest and most comprehensive public program in the United States. Social Security is part of nearly every American's life and an important source of income for most of today's older Americans. It provides more than half of the total income of two-thirds of today's retirees. Social Security provides nearly all of the income of one-third of the elderly. The Social Security Administration estimates that, without benefits, 47 percent of individuals 65 and older would live in poverty, four times as are in poverty today.

My concern for developing this new consensus on Social Security and Medicare goes beyond the issue of a generational wealth transfer and straight to the heart of a relationship between a democratic government and the people. Pundits and politicians alike wonder at the decline in political participation and the rise in cynicism about government among today's young people. Let me suggest that a significant factor in this cynicism and lack of interest in po-

litical participation among young people—and baby boomers, too, for that matter—is a belief that government is incapable of fulfilling its responsibilities to programs like Social Security and Medicare because we in the Congress are incapable of moving beyond the polarizing rhetoric of campaigns to address the root of the problem: making Social Security and Medicare solvent and relevant beyond the 10-year projection.

We can change that if together we seek and find a bipartisan and cross-generational consensus on reforms to the funding mechanisms for these programs. As a first step in that process, allow me to outline a few points where I think we can and should reach a consensus:

First, let us agree that the surest way to secure Social Security and Medicare benefits for existing and future beneficiaries is to boost economic growth. Surely there is already a consensus among us that if the economy is larger, the unavoidable burden of supporting benefits for ever-larger numbers of retirees will be more feasible, economically and politically.

Let us agree on the timing. I believe that we can reach a bipartisan and cross-generational consensus on these issues if, as we deliberate on the budget, we will commit ourselves to look beyond the next fiscal year and consider the next 50 years as well. We have an obligation to act now before the cash flow into the system turns negative, to put the system on a more economically and actuarially sound basis, to allay the fears of those who are counting on its benefits.

Third, we must agree that we will review previously authorized programs for efficiency, effectiveness and relevance. Surely there can be a consensus among us that if government is efficient and economical in discretionary spending, it will free up resources for the nondiscretionary spending required to provide benefits to the growing numbers of retirees leaving the work force.

Fourth, let us agree that as we seek to allay the fears of existing beneficiaries we will also act now to allay the fears of those just entering the work force as well. We can do that by seeking a bipartisan cross-generational consensus on reforms that will provide opportunities for a fairer return on contributions, while still preserving the traditional safety net features of the present system for existing beneficiaries and those who may prefer that system in the future.

And finally, let us agree to tone down the rhetoric and be honest with each other and the American people. Honestly spoken, the challenge of dealing with Social Security and Medicare is a challenge too easily put off because it is a challenge that most of the people in this room will never have to face—present company excluded, of course.

We all know that although outlays will begin exceeding receipts as early as 2013, depending on which projection you accept, the present system can serve unchanged until at least 2030, long past the political and actuarial lifetime of most of today's voters and beneficiaries, if not their children. Thus, it is our challenge to act now to reach across the aisle and the generations to ensure that 30 years from now the government's commitment to future retirees

is relevant and the system for making good on that commitment is solvent.

If we work together, I am confident we can reach a bipartisan and generational consensus that will restore the faith of the American people that their tax dollars are wisely invested for their future retirement and that their government wisely anticipates and solves future problems on their behalf.

Thank you, gentlemen.

[The prepared statement of Congressman Putnam follows:]

PREPARED STATEMENT OF HON. ADAM PUTNAM, A REPRESENTATIVE IN CONGRESS  
FROM THE STATE OF FLORIDA

Mr. Chairman, Mr. Ranking Member and fellow members of the House Committee on the Budget, thank you for providing me with this opportunity to share my budget interests and priorities with you. Put simply, my priority is not a request for a new program, but a request that we begin a process, the fruits of which may not be seen conclusively for decades. Just as we seek a bipartisan consensus on critical budget issues, such as use of the existing tax surplus to fund national priorities, tax reform and reduction, and keeping Social Security and Medicare solvent and relevant, so we should also seek a generational consensus on these same issues.

We particularly need to seek this generational consensus on Medicare and Social Security because together they consume about 33 percent of the Federal budget and constitute the largest and most comprehensive public program in the United States<sup>1</sup>. Social Security is part of nearly every American's life and an important source of income for most of today's older Americans. Social Security provides more than half of the total income of two-thirds of today's retirees. Social Security provides nearly all of the income of one-third of the elderly. The Social Security Administration estimates that, without Social Security benefits, 47 percent of individuals aged 65 and older would live in poverty, four times as many as are in poverty today.<sup>2</sup>

Just as importantly we need to seek this generational consensus on Social Security and Medicare because for the first time in the history of these programs, significant populations from five generations of Americans have a claim on program benefits.

CHART OF NOVEMBER 1, 2000, FIVE-YEAR AGE GROUPS

[Total population 276,059,000]<sup>3</sup>

Age group	Population
Under 5 years .....	18,945,000
5 to 9 years .....	19,681,000
10 to 14 years .....	20,017,000
15 to 19 years .....	19,894,000
20 to 24 years .....	18,693,000
25 to 29 years .....	17,625,000
30 to 34 years .....	19,564,000
35 to 39 years .....	22,044,000
40 to 44 years .....	22,769,000
45 to 49 years .....	20,059,000
50 to 54 years .....	17,626,000
55 to 59 years .....	13,425,000
60 to 64 years .....	10,757,000
65 to 69 years .....	9,414,000
70 to 74 years .....	8,758,000
75 to 79 years .....	7,425,000
80 to 84 years .....	4,968,000
85 to 89 years .....	2,734,000
90 to 94 years .....	1,196,000
95 to 99 years .....	369,000
100 years and over .....	68,000

Today, there are over 45.6 million Americans aged 60 and older, and over 1.5 million Americans aged 90 and over—including my grandfather, Dudley A. Putnam. Many Americans who are now retired, or who plan to retire in the near future, fear

that benefits will be reduced, or the retirement age raised, because there are not enough young workers entering the work force to fund Social Security and Medicare through a “pay as you go” payroll tax based system.

As one assesses the impact on the system as members of the “Baby Boom Generation” stop paying payroll taxes and start claiming benefits it is clear that their fears are not unjustified. Over 76.5 million Americans belong to the Baby Boom Generation, that’s almost one-third of our present population of 270 million and the core of our work force.<sup>4</sup> Needless to say, as the Baby Boomers begin to retire the impact on the economy and Social Security and Medicare will be staggering. Without immediate action on our part, Social Security and Medicare, as now funded, are not sustainable.

In 1945 the ratio of workers to beneficiaries was 41.9 to 1.

By 1950 it had decreased by more than half to 16.5 to 1.

By 1960 it had again decreased by more than two thirds to 5.1 to 1.

By 1975 the ratio had decreased down to 3.2 workers for each beneficiary.

The ratio of workers to recipients has held fairly steady since the mid-1970’s. Currently the ratio stands at about 3.4 workers to each recipient. As the Baby Boom Generation begins to retire this ratio will continue to decrease, eventually reaching a level of two workers for each recipient by approximately 2030.<sup>5</sup>

Just as many older Americans look upon the retirement of the Baby Boomers and fear benefit reductions or an increase in the retirement age, so many Americans of my generation look at the retirement of the Baby Boomers and rightly doubt the future viability of a “pay as you go” system. Many younger workers question the fairness of a retirement system where three out of every four dollars that they and their employers send in go to pay for their parents’ and grandparents’ benefits.<sup>6</sup> Workers aged 22 to 34 already pay the highest Social Security tax rates, an effective rate of over 10 percent in some cases,<sup>7</sup> yet they do not receive a market-based return on their contributions. Is there any wonder that they doubt the relevance of a system that taxes them at 10 percent, yet produces a declining rate of return on their cash contributions that is far lower than they could earn through investing their contributions in a simple certificate of deposit?

Indeed, young workers can expect future returns from Social Security of from only 0.58 percent (for high-wage earners) to 2.93 percent (for low-wage workers) if the system somehow manages to pay all future benefits without raising taxes<sup>8</sup> and young workers rightly fear that to fund a pay as you go system, payroll taxes will be raised to ruinous levels as the ratio of workers to beneficiaries decreases. As the following chart illustrates, their fears are not unjustified because, as might be expected, as the ratio of workers to recipients has fallen, the tax rates paid by workers have risen.

In 1945 the FICA tax rate was 1 percent.

By 1950 it had risen to 1.5 percent.

By 1960 it had doubled to 3 percent.

By 1975 it stood at 4.95 percent.

Since 1975 the tax rates paid by individuals for Social Security have risen to 6.2 percent, plus an additional 6.2 percent paid by their employers, making a total of 12.4 percent. Perhaps even more importantly, the taxable earnings bases have also risen steadily since the inception of Social Security, from a low of \$3,000 to the current high of \$80,400.<sup>9</sup>

When the ratio of workers to beneficiaries was over 40 to 1, and the tax rate was 1 percent on the first \$3,000 of income, a pay as you go system was a viable option. When the ratio of workers to recipients approaches 2 to 1 and the effective tax rate is at 10 percent and rising, the need for a new consensus is clear.

My concern for developing this new consensus on Social Security and Medicare goes beyond the issue of a generational wealth transfer and straight to the heart of the relationship between a democratic government and the people. Pundits and politicians alike wonder at the decline in political participation and the rise in cynicism about government among today’s young people. Let me suggest that a significant factor in this cynicism and lack of interest in political participation among young people—and Baby Boomers too for that matter—is a belief that government is incapable of fulfilling its responsibilities to programs like Social Security and Medicare because we in the Congress are incapable of moving beyond the polarizing rhetoric of campaigns to address the root of the problem—making Social Security and Medicare solvent and relevant beyond the 10 year projection. We can change that if together we seek, and find, a bipartisan and cross-generational consensus on reforms to the funding mechanism for Social Security and Medicare.

As a first step in the consensus building process, please allow me to outline a few points where I believe we can and should reach consensus.

First, let us agree that the surest way to preserve Social Security and Medicare benefits for existing and future beneficiaries is to boost economic growth. Surely there is already a consensus among us that if the economy is larger, the unavoidable burden of supporting benefits for ever larger numbers of retirees will be more feasible economically and politically.<sup>10</sup>

Second, let us agree on the timing. I believe that we can reach a bipartisan and cross-generational consensus on these important issues if, as we deliberate on the budget, we will commit ourselves to look beyond the next fiscal year and consider the next fifty years as well. We have an obligation to act now—before the cash flow into the system turns negative—to put the system on a more economically and actuarially sound basis to allay the fears of those who are counting on its benefits.

Third, we must review previously authorized programs for efficiency, effectiveness and relevance. Surely there can be a consensus among us that if government is efficient and economical in discretionary spending it will free up resources for the non-discretionary spending required to provide benefits to the growing numbers of retirees leaving the work force.

Fourth, let us agree that as we seek to allay the fears of existing beneficiaries we will also act now to allay the fears of those just entering the work force, too. We can do that by seeking a bipartisan and cross generational consensus on reforms that will provide opportunities for a fairer return on contributions while still preserving the traditional safety net features of the present system for existing beneficiaries and those who may prefer that system in the future.

Finally, let us agree to tone down the rhetoric and be honest with each other and the American people; honestly spoken, the challenge of dealing with Social Security and Medicare is a challenge too easily put off, because it is a challenge that most of the people in this room will never have to face.

We all know that, although outlays will begin exceeding receipts as early as 2013, depending on which projection you accept, the present system could serve unchanged until at least 2030, long past the political and actuarial lifetime of most of today's voters and beneficiaries—if not their children. Thus it is our challenge to act now to reach across the aisle, and the generations, to ensure that 30 years from now the government's commitment to future retirees is relevant and the system for making good on that commitment is solvent. If we work together I am confident we can reach a bipartisan and generational consensus on Social Security and Medicare that will restore the faith of the American people that their tax dollars are wisely invested for their future retirement, and that their government wisely anticipates and solves future problems on their behalf.

#### FOOTNOTES

1. CBO estimate for fiscal year 2000 (Social Security + Medicare = \$622 billion)
2. Thomas F. Siems, senior economist and policy advisor, Federal Reserve Bank of Dallas, January 23, 2001 for the CATO Institute
3. Population Estimates Program, Population Division, U.S. Census Bureau, Washington, D.C. 20233
4. US Census Bureau, Characteristics of Baby Boomers
5. Office of the Chief Actuary, Social Security Administration, June 16, 1998 (historical data), April 9, 1999 (projected data)
6. Robert D. Reischauer (Director of CBO 1989 to 1995) in AARP Bulletin Online, January 2000
7. The Heritage Foundation, Average Effective Social Security Tax Rates, 1999: Note the average effective OASDI tax rate is total OASDI taxes divided by total income. This differs from the OASDI statutory tax rate of 12.4 percent on earned income below the taxable wage cap (\$76,200 in 2000) because the share of earned income to total income can differ from worker to worker. Likewise, not all workers are subject to the OASDI tax, so the average effective Social Security tax rate can vary significantly from worker to worker. Other sources of income, besides wages and salaries, include public assistance, Social Security, private pensions, alimony and child support, interest, rent and dividends, all of which affect the average effective OASDI tax rate.
8. Thomas F. Siems, senior economist and policy advisor, Federal Reserve Bank of Dallas, January 23, 2001 for the CATO Institute
9. Social Security Bulletin, Annual Statistical Supplement, 1999
10. Robert D. Reischauer (Director of CBO 1989 to 1995) in AARP Bulletin Online, January 2000

Chairman NUSSLE. Thank you.

Are there questions for this witness?

Mr. SPRATT. Mr. Putnam, we have a surplus according to CBO of about \$5.6 trillion; 2.5 of that is Social Security and another \$400 billion is Medicare. Do you think that the non-Social Security, non-Medicare surplus ought to be apportioned so maybe a third of it at least is set aside in some kind of strategic reserve, in some kind of fund for the eventual use of Social Security and Medicare's long-term solvency? Is that unreasonable?

Mr. PUTNAM. Well, without assigning a specific number to it, I think it is reasonable for us to set aside dollars to ensure that those programs are solvent and relevant. But I think that the past recent history of this body shows us that it is also important that we contain spending, and the best way to do that is to take the money out of Washington and put it back in the hands of the consumers, families, the workers; and I think that responsible tax cuts are a way to do that.

But, clearly, we also have an obligation to ensure that the debt reduction scenarios continue to play out and we will indeed be on course to eliminate that debt which is redeemable; and that we will also continue to have reserves for Social Security and Medicare in the sense that those will continue to be solvent.

Mr. SPRATT. OK.

Chairman NUSSLE. Mr. Sununu.

Mr. SUNUNU. Thank you, Mr. Chairman.

Congressman, as someone who has been campaigning recently and sort of for the first time, I think there is no question that in an initial congressional campaign you approach it without any biases, I think in many respects, on issues; and maybe your ear is a little more closely attuned to voters and constituents.

I am curious to know what your impression was on taxes in particular when you spoke to voters and potential constituents during the campaign. What was highlighted as being a priority, not just for tax relief, but also for tax reform or simplification? In other words, what elements of the Tax Code do you think engendered the most frustration from taxpayers that you would highlight as a priority to try to address in a broad tax relief proposal to eliminate some of the frustration with the unfairness in the code?

Mr. PUTNAM. Thank you, Mr. Vice Chairman. There were a number of issues that came up that—let me describe for you my district to sort of set the stage.

I represent central Florida. I don't have any part of the coast. It is an interior district, predominantly rural, suburban, large agricultural holdings. The death tax, the estate tax, probably engenders the most concern among small farms, particularly as the older generation is approaching the point at which they are incapable of managing the day-to-day affairs of their business, their farm, their grove operation, their ranch; that they are looking for ways to pass that on to their heirs in a way that they will be able to continue in that business. With the inflated land prices in Florida, the combination of capital gains, and the death tax is the single greatest killer of small agriculture in my State.

But you also raise an important point that I heard an awful lot about on the campaign trail, that is tax simplification. There is a tremendous frustration with government when you can take 10 of the best CPAs money can buy that present the same tax question



to them that get 7, 8, 9 different answers from 10 different CPAs; or you can call the IRS hotlines several times in a row and get a different answer to the same question.

The frustration is that when the code has become so complex that the very agents who are employed to enforce it aren't in agreement on how to enforce it, that when our professionals who are paid to consult us on how to present our taxes are not in agreement on it, then we have a major problem that undermines people's faith in the system. It undermines people's belief in the fairness of the law, that it forces ordinary, hard-working law-abiding citizens to come afoul of the law—in other words, to be criminals. That is a very, very frustrating predicament that a lot of those folks find themselves in.

So the combination of the estate tax and a call for some tax simplification were the two most frequent things I heard on the trail.

Mr. SUNUNU. Thank you.

Chairman NUSSLE. Thank you very much for your testimony. We appreciate your testimony here today and we look forward to your service on the committee. We understand you also will be serving on the Agriculture Committee.

Mr. PUTNAM. I will.

Chairman NUSSLE. And as you pointed out—and it is true for my district; I know also for Ranking Member Spratt's district, a number of others—agriculture is going to be a key priority and issue we are going to have to discuss this year. So we appreciate your service and look forward to your advice on that as well.

Mr. PUTNAM. Thank you, Mr. Chairman and Mr. Ranking Member.

Chairman NUSSLE. Thank you.

The next witness we will hear from today is a colleague from Indiana, a new member, Mike Pence. And we welcome you to the Budget Committee. We would like to incorporate your testimony in its entirety in the record, and during your 5 minutes we would invite you to summarize and give us your advice on budget priorities for this fiscal year.

Mr. PENCE. Thank you very much, Chairman Nussle, and senior members of the committee. It is quite an honor for a small-town boy and a member of the freshman class to be able to address this committee.

Mr. SPRATT. You are talking to someone from York, South Carolina, so we come from the same background.

Mr. PENCE. I want to indicate that I am part of the gray hair caucus in the freshman class. My predecessor and colleague is holding forth on the good looks and the youthfulness. But it is an honor to be here before you to share my thoughts on the budget for the coming fiscal year.

As hundreds of layoffs in my Indiana district attest, this economy, in my judgment, Mr. Chairman, is listing badly under the weight of 8 years of increased taxes and regulation. I come to the committee today to urge the Republican Congress to become the Congress of economic recovery by passing tax relief, significant tax relief, quickly for the American people.

As President Bush has argued in his tax proposal and as others and I have argued in the Economic Growth and Recovery Act, a tax

reduction will allow families, small businesses and family farms to exercise the entrepreneurial spirit that is imperative to restoring the economic vitality of east central Indiana and the country as a whole. It is appropriate that the revival of that spirit begin here in this committee where tax relief will be reflected in the next budget.

If Congress is to repeal the death tax and the marriage penalty and enact marginal rate reductions, the new budget must reflect the fiscal discipline that is necessary for such cuts. The \$5.7 trillion surplus that CBO has projected must not be the victim of Members of Congress eager to appease special interest groups. Rather, Congress should follow the lead of President Bush and begin the charge to trust the people with their money. After saving Social Security, Congress should pass a substantial—in my judgment, in excess of \$2 trillion—tax cut. A failure to cut taxes by Congress would not only be a lost investment in the long-term economic success of the United States, it would bequeath future generations a legacy of irresponsibility. We must set a new precedent in a time of unprecedented surpluses.

As I mentioned earlier, the zero growth economy has already begun to disrupt the lives and businesses of east central Indiana's businesses, Mr. Chairman. Cummins Engine Company in my hometown of Columbus, Daimler Chrysler in Newcastle, Indiana, have both, as major employers, announced layoffs that not only affect the lives of the companies' workers but the small businesses whose economic success hinges on the health of the local economy. For that reason, I feel that any action taken by Congress must foment economic recovery in our local communities by enacting tax reductions quickly and completely.

Budget spending should in turn reflect this goal. Any marginal tax rate reduction that Congress enacts should be across the board and, in my judgment, retroactive to 2001, January 1. Additionally, the marriage penalty and death tax reduction should be more inclusive and phased in sooner than even what our President has requested.

Such a tax cut may be attacked as too risky or irresponsible, yet a \$2 trillion tax cut would represent only 1.5 percent of GDP. Opponents of a significant tax cut do not recognize that the current tax rate on work, savings and investment penalizes productive behavior and impedes economic growth. At the same time, the growing budget surplus represents lost investment that would undoubtedly cause economic growth.

Anti-tax cut proponents, Mr. Chairman, argue that cutting taxes will signal the return of deficits, a premise contradicted by the Clinton administration's own budget documents. In early 1995, nearly 18 months after enactment of the 1993 tax increase, the Office of Management and Budget projected budget deficits of more than \$200 billion for the next 10 years.

Critics also argue that a big tax cut would make it harder to reform Medicare or modernize Social Security by allowing younger workers to shift some of their payroll taxes into personal retirement accounts. Given the magnitudes of the projected budget surpluses, there is no conflict between those goals. Moreover, entitlement reform would be desirable even without a budget surplus be-

cause it would significantly reduce the long-run unfounded liability of both programs. Large projected surpluses simply make it easier for legislators to implement the necessary policies.

Finally, Mr. Chairman, as I said today, with friends gathered around the endorsement of the Economic Recovery and Growth Act in the sunshine at the foot of the steps of the House of Representatives, I simply believe that it is morally wrong for the Federal Government to become wealthy while some Americans are becoming poor.

In summary, I urge the committee to set revenue levels that assume a substantial tax cut like the one offered by the President and that is crafted in the Economic Recovery and Growth Act from my friend, the distinguished gentleman from Pennsylvania, Representative Pat Toomey. In addition, it is my hope that the Budget Committee resolution will include a reconciliation instruction for the Ways and Means Committee to report out a bill that will keep our promise to significantly cut taxes for all Americans.

[The prepared statement of Congressman Pence follows:]

PREPARED STATEMENT OF HON. MIKE PENCE, A REPRESENTATIVE IN CONGRESS FROM  
THE STATE OF INDIANA

Thank you Chairman Nussle for inviting my freshman colleagues and me here today to share our thoughts on the budget for the coming fiscal year. As hundreds of layoffs in my Indiana district attest, this economy is listing badly under the weight of eight years of increased taxes and regulation. I come to the committee today to urge the Republican Congress to become the Congress of economic recovery by passing tax relief. As President Bush has argued in his tax proposal, and as others and I have argued in the Economic Growth and Recovery Act, a tax reduction will allow families, small businesses and family farms to exercise the entrepreneurial spirit that is imperative to restoring the economic vitality of east central Indiana and the country. It is appropriate that the revival of that spirit will begin here in this committee where tax relief will be reflected in the next budget.

If Congress is to repeal the death tax and the marriage penalty and enact marginal rate reductions the new budget must reflect the fiscal discipline that is necessary for such cuts. The \$5.7 trillion surplus that the CBO has projected must not be the victim of members of Congress eager to appease special interest groups. Rather, Congress should follow the lead of President Bush and begin the charge to trust the people with their money. After saving Social Security, Congress should pass a substantial \$2.2 trillion tax cut. A failure to cut taxes by Congress would not only be a lost investment in the long term economic success of the United States it would bequeath future generations a legacy of irresponsibility. We must set a new precedent in a time of unprecedented surpluses.

As I mentioned earlier, the zero growth economy has already begun to disrupt the lives and businesses of East Central Indiana's residents. Cummins Engine and Daimler Chrysler have already announced layoffs that not only affect the lives of the company workers, but the small businesses whose economic success hinges on the health of the local economy. For that reason, I feel that any action taken by Congress must foment economic recovery in our local communities by enacting tax reductions quickly and completely. Budget spending should in turn reflect this goal. Any marginal tax reduction Congress enacts should be across the board and retroactive to January 1, 2001. Additional, the marriage penalty and death tax reductions should be more inclusive and phased in sooner than what President Bush has requested.

Such a tax cut may be attacked as too risky or irresponsible, yet a \$2.2 trillion tax cut would represent only 1.5 percent of GDP. Opponents of a significant tax cut do not recognize that the current tax rate on work, savings, and investment penalizes productive behavior and impedes economic growth. At the same time, the growing budget surplus represents lost investment that would undoubtedly cause economic growth.

Anti-tax cut proponents argue that cutting taxes will signal the return of deficits, a premise contradicted by Clinton Administration budget documents. In early 1995, nearly 18 months after enactment of the 1993 tax increase, the Office of Manage-

ment and Budget projected budget deficits of more than \$200 billion for the next 10 years.

Critics also argue that a big tax cut would make it harder to reform Medicare or modernize Social Security by allowing younger workers to shift some of their payroll taxes into personal retirement accounts. Given the magnitude of the projected budget surpluses, there is no conflict between these goals. Moreover, entitlement reform would be desirable even without a budget surplus because it would significantly reduce the long-run unfounded liability of both programs. Large projected surpluses simply make it easier for legislators to implement the necessary policies.

In summary, I urge the committee to set revenue levels that assume a substantial tax cut like the one offered by the President and our colleague Rep. Pat Toomey of Pennsylvania. In addition, it is my hope that the Budget Committee resolution will include a reconciliation instruction for the Ways and Means Committee to report out a bill that will keep our promise to significantly cut taxes for all Americans.

Chairman NUSSLE. Thank you.

Are there questions for this witness?

If not, thank you very much for your testimony and we look forward to working with you.

Mr. PENCE. Thank you, Mr. Chairman.

Chairman NUSSLE. The next witness is also from this committee, the gentleman from Texas, Mr. Culberson, who is a new member of the Budget Committee and who I have had an opportunity to already get to know and to work with in the early transition of this committee.

We would invite you to the witness table and we will have your testimony as part of the record, without objection, and you may use your 5 minutes to summarize your testimony before the committee.

Mr. CULBERSON. Thank you, Mr. Chairman it is an honor for me to be here today, and I want to especially thank you, Mr. Chairman, Ranking Member Spratt, for giving each member of the freshman class of the 107th Congress this marvelous opportunity to speak to you and to all the committee members, to share our ideas with you based on our own personal experience in the election campaigns we have all just come through.

I have provided the committee with copies of my testimony, as well as some exhibits I would like you to look at as well to support the testimony I will be giving here today, and I do intend to be brief.

I am especially privileged to be here as only the third Congressman from Texas's District Seven in Houston. The only other Congressmen to ever represent this district have been George Bush and Bill Archer. George Bush served two terms and Chairman Archer served our district for 30 years before retiring in the last election cycle. These two great men have genuinely created a very special legacy of principled honorable leadership in our district that I will do my very best to uphold.

This special legacy, combined with the length of Bill Archer's service and the large number of talented, motivated, and well-educated citizens in our district, created a very competitive election campaign and a field of eight candidates last year, which made this campaign especially vivid and fresh in my mind, as are the voices and opinions of our voters and my predecessors.

My experience in this campaign and the advice that I have obtained from my predecessors, and my own experience in the legislature, has given me a lot of valuable insight into the question Chairman Nussle has asked us to answer today: What budget reforms

would I and the voters of District Seven like to see the Congress enact?

District Seven's highest budget priority is to preserve and protect America's balanced Federal budget through ongoing fiscal discipline, tax cuts to reduce the tax surplus and, above all, by approving a balanced budget amendment to the United States Constitution.

We know these principles work in Texas because we have proven them and tested it repeatedly in our State government. I have just completed 14 years of service to 150,000 of District 7's residents as their State representative. Over the last 6 years I served alongside Governor Bush and his staff in helping them enact the key elements of his legislative program in Texas, public education reform, criminal justice reform, tort reform, and tax cuts to strengthen our economy and reduce Texas's record tax surpluses.

We were successful on every count in Texas, and the voters in Texas measured the legislature and the Governor against this record to make Governor Bush the first Governor to be reelected to a full 4-year term in 1998.

Therefore, Mr. Chairman, I can testify from personal experience that statutory and constitutional balanced budget requirements have a very healthy effect on every detail of the appropriations process and impose fiscal discipline on legislators, regulators, public employees, and public agencies.

Based on this experience, I also want to suggest that Congress enact two other proven budget reforms. I am not sure exactly what form this would take in the Federal Government, but I could point you first for guidance to Article 8, Section 22 of the Texas Constitution and Chapter 316 of the Texas Government Code, which are included in the exhibits I provided to the committee. These are speed governors on spending, which have had a very healthy effect on our State budget in Texas. The core of both of these provisions essentially provides that, quote, "the rate of growth of appropriations from State revenues not dedicated by the constitution shall not exceed the estimated rate of growth of the State's economy," essentially limiting spending increases to no more than is brought in by natural growth in the State's economy.

I believe Florida has similar language in your constitution, Congressman, by the way, and we visited about that before, and I know has worked well in your State as well.

Again, I am not sure what form that would take in the Federal law, but one that I hope we will all work on together to implement after we get our budget resolution done.

Secondly, I would like to direct the committee's attention to the performance-based budgeting process we have used in Texas very successfully for a number of years. I have attached several exhibits which give you some perspective on the opinion of members of the legislature on the effectiveness of performance-based budgeting, and these exhibits show that it is the consensus of every member of the legislature overwhelmingly that the adoption of performance-based budgeting has improved the accountability and efficiency of State agencies and employees, saved taxpayers a great deal of money, and made the entire—all of State government more accountable to both the legislature and to the taxpayers.

These are the most important budget reforms that I and the people of the District 7 would suggest to you here today to ensure that we preserve and protect our balanced budget, balanced Federal budget, reduce the tax surplus and strengthen our Nation's economy.

As I learn more about the Federal budget process, other ideas based on my experiences in Texas will undoubtedly come to mind. In the meantime, I look forward to working with you, Chairman Nussle, and with the entire committee to complete our budget resolution in a timely manner so we can then move on to a detailed discussion of budget reform ideas that I and my freshman colleagues have presented here today. I genuinely want to thank you for allowing us who are on the freshman campaign trail this opportunity to speak to the committee and offer our best ideas. Thank you very much.

Mr. SUNUNU [presiding]. Thank you very much, John. Any questions from your committee members? Thank you for your time and your presentation.

[The prepared statement of Congressman Culberson follows:]

PREPARED STATEMENT OF HON. JOHN CULBERSON, A REPRESENTATIVE IN CONGRESS  
FROM THE STATE OF TEXAS

Mr. Chairman, Ranking Member Spratt, thank you for giving us this valuable opportunity to share our ideas with you and the Budget Committee.

I am privileged to be here today as the third congressman from Texas' District 7 in Houston. The only other congressmen to represent our district were George Bush and Bill Archer. George Bush served two terms, and Chairman Archer served our district for 30 years before retiring. These two great men have created a special legacy of principled, honorable leadership in our district that I will do my best to uphold. This special legacy, combined with the length of Bill Archer's service and the large number of talented, motivated and well educated citizens in District 7 created an extremely competitive election campaign among a field of eight candidates last year.

This campaign is very fresh and vivid in my mind, as are the voices and opinions of our voters and my predecessors on the question that Chairman Jim Nussle has graciously asked us to answer today: What budget reforms would I and the people of District 7 like to see the Congress enact?

District Seven's highest budget priority is to preserve and protect America's balanced Federal budget through ongoing fiscal discipline, tax cuts to reduce the tax surplus, and above all, by approving a balanced budget amendment to the United States Constitution. We know these principles work because we have proven them and tested them repeatedly in our state government in Texas.

I have just completed 14 years of service to 150,000 of District Seven's residents as their state representative. Over the last six years, I served alongside Governor George W. Bush and worked hard to help him enact the key elements of his legislative program: public education reform, criminal justice reform, juvenile justice reform, tort reform, and tax cuts to strengthen our economy and reduce Texas' record tax surpluses. We were successful on every count, and voters measured us against this record to re-elect George Bush as Governor in 1998.

Therefore, Mr. Chairman, I can testify from personal experience that statutory and constitutional balanced budget requirements have a very healthy effect on every detail of the appropriations process, and impose fiscal discipline on legislators, regulators, public employees and public agencies.

Based on this experience, I also want to suggest that Congress enact two other proven budget reforms. The first is a "speed governor" on spending similar to Article 8, Section 22 of the Texas Constitution and Chapter 316 of the Texas Government Code which state: "the rate of growth of appropriations from tax revenues not dedicated by [the] constitution [shall not] exceed the estimated rate of growth of the state's economy."

Second, I hope the Congress will enact Performance Based Budgeting as the foundation for our budget and appropriations process. As the attached exhibits show,

Performance Based Budgeting has improved the accountability and efficiency of state agencies, according to an overwhelming majority of Texas state leaders.

These are the most important budget reforms that I and the people I represent would suggest that the Congress enact to ensure that we preserve and protect our balanced Federal budget, reduce the tax surplus and strengthen our nation's economy. As I learn more about the Federal budget process, other ideas based on my experiences in Texas will undoubtedly come to mind. In the meantime, I look forward to working with you, Chairman Nussle, to complete our Budget Resolution in a timely manner so we can then move on to a detailed discussion of the budget reform ideas that I and my freshman colleagues have presented today.

Again, thank you for the opportunity to testify before the committee today.

Mr. SUNUNU. Our next witness is a new member, of course, from New York, the Honorable Steve Israel.

Welcome, Congressman.

**STATEMENT OF HON. STEVE ISRAEL, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK**

Mr. ISRAEL. Thank you very much. Let me thank the chairman and the ranking member and all members of this committee for affording freshmen the opportunity to be heard. I especially want to thank Chairman Nussle for using his first hearing as budget Chairman to listen to new members.

Before coming to the House, I served as town councilman in Huntington, Long Island. In my town I led the successful effort to reduce and stabilize property taxes for 7 consecutive years, slash our debt payments virtually in half, and meet the critical needs of our time from child care, to senior care, to the environment. And although Huntington's \$145 million budget is a minute fraction of the Federal Government's budget, the same responsible fiscal philosophies have to apply: paying down our debt, offering sustained and consistent tax relief, and meeting the immediate needs of our citizens.

I have spoken to thousands of my constituents in New York's Second Congressional District, and when I ask them how should we budget, they tell you what you would expect to hear: Run it like a business. Just as a small business owner would use common sense in running a business, so, too, should we use common sense in running our government. They say we have to live within our means, pay our debts, and invest in our future. Just as in a business if there is a surplus, a real surplus, it should be returned to the shareholders, and in this case the American people, returned to the American people by shoring up Social Security and Medicare and providing common-sense tax relief.

Here is how I believe we should do it: First, thousands of working families in my district need relief from the marriage tax penalty, a perverse effect of the Tax Code that makes a married couple pay more in taxes than if they were two single people. We need to repeal the marriage penalty.

Secondly, small business owners need relief from estate taxes, taxes that make it virtually impossible to pass along a lifetime of work to the next generation. Nationally approximately 70 percent of family-owned business are not kept in the family once a parent dies.

Third, we can and should reduce marginal tax rates progressively and fairly. These reductions must provide maximum relief to

hard-working, middle-class families, who are the backbone of our economy.

And fourth, we should continue to pare down our debt.

Overall I am encouraged by the Federal Reserve Chairman's recent comments about the state of our economy. He indicated that the current budget surpluses are large enough to accommodate both the gradual elimination of the national debt and a significant reduction in Federal taxes. Paying down our debt means lower inflation and lower interest rates for everyone. That is like a tax cut for everyone who has a mortgage, a small business, a car loan or student loan.

In the words of my local newspaper, *Newsday*, we should focus on those elements that have, quote, "strong bipartisan support, eliminating the marriage penalty and a cut in the marginal rate for lower and middle-income tax brackets. The result would be meaningful cuts for a broad swath of taxpayers."

Above all, Mr. Chairman and Ranking Member and all members, Democrats and Republicans can agree on this: Discipline is vital. I commend the President for understanding that we have to assess the spending side of the ledger as part of any comprehensive tax relief plan. At the end of the day, the linchpin to any economic blueprint is a balanced budget. That is how any household operates, how any business operates. That is how my town operated. And that is why any bipartisan fiscal plan must include vigilance: a rigorous annual assessment of our ability to sustain tax cuts, provide adequate investments and eliminate our debt.

We must continue the economic formula that created the long boom of the 1990's: fiscal discipline and investment in the knowledge and skills of the American people. Sensible use of the surplus will ensure that our Nation reaps the economic benefits of both national debt reduction and tax relief for working families. And I thank you for your consideration.

Mr. SUNUNU. Thank you very much.

[The prepared statement of Congressman Israel follows:]

PREPARED STATEMENT OF HON. STEVE ISRAEL, A REPRESENTATIVE IN CONGRESS  
FROM THE STATE OF NEW YORK

Mr. Chairman, before coming to the House, I served as a town councilman in Huntington, Long Island. In my town, I led the successful effort to reduce and stabilize property taxes for 7 consecutive years, slash our debt payments virtually in half, and meet critical needs from child care to senior care to the environment. Although Huntington's \$145 million budget is a minute fraction of the Federal Government's budget, the same responsible budgeting philosophies apply: paying down the debt, offering sustained and consistent tax relief, and meeting the immediate needs of our citizens.

Now we have an opportunity to apply those principles here in Washington. In the words of Federal Reserve Chairman Alan Greenspan, "The time has come, in my judgment, to consider a budgetary strategy that is consistent with a preemptive smoothing of the glide path to zero Federal debt or, more realistically, to the level of Federal debt that is an effective irreducible minimum."

We ought to be running the government like a business. Just as a small business owner uses common sense in running a business, so too should we use common sense in running the government. We have to live within our means, pay our debts, and invest in our future. And just as in a business, if there is a surplus—a real surplus—it should be returned to the shareholders, in this case the American people. It can be returned to the American people by shoring up Social Security and Medicare and providing common sense tax relief.

Here is how:



First, thousands of working families in my district need relief from the marriage tax penalty a perverse effect of the tax code that makes a married couple pay more in taxes than if they were two single people. According to the Congressional Budget Office, more than 21 million married couples have fallen victim to the marriage penalty, at an average of \$1,400 per year.

Second, small business owners need relief from estate taxes—taxes that make it impossible to pass along a lifetime of work to the next generation. Nationwide, approximately 70 percent of family-owned businesses are not kept in the family once a parent dies.

Third, we can and should reduce marginal tax rates progressively and fairly. These reductions must provide maximum relief to hard working middle class families who are the backbone of our economy.

Fourth, we must continue to pay down our debt. Overall, I am encouraged by the Federal Reserve Chairman's recent comments about the state of our economy. He indicated that the current budget surpluses are large enough to accommodate both the gradual elimination of the national debt and a significant reduction in Federal taxes. Paying down the debt means lower inflation and lower interest rates for everyone. That's a tax cut for anyone who has a mortgage, a small business, a car loan, or a student loan—in effect, everyone.

In the words of my local paper Long Island Newsday, we should focus on those elements that have "strong bipartisan support \* \* \* eliminating the marriage penalty (and) a cut in the marginal rate for lower and middle-income tax brackets \* \* \* the result would be meaningful cuts for a broad swath of taxpayers."

Above all, Mr. Chairman, Democrats and Republicans can agree on this: discipline is vital. I commend President Bush for understanding that we have to assess the spending side of the ledger as part of any comprehensive tax relief plan. At the end of the day, the linchpin to any economic blueprint is a balanced budget. That is how any household operates, how any business operates, and that is how my town operates. And that is why any bipartisan fiscal plan must include vigilance: a rigorous annual assessment of our ability to sustain tax cuts, provide adequate investments, and eliminate our debt.

We must continue the economic formula that created the long boom of the 1990's—fiscal discipline and investment in the knowledge and skills of the American people. Sensible use of the surplus will ensure our nation reaps the economic benefits of both national debt reduction and tax relief for working families.

Mr. SUNUNU. Any questions?

I have a brief question. You talked about cutting marginal rates, and the top marginal rate is 40 percent—a 40-percent personal income tax rate. If we are going to cut marginal rates in the various brackets—the President has proposed cutting the 28 percent bracket down to 25, the 15 percent bracket down to 10—why not provide some relief for the 40 percent marginal rate bracket, which is obviously a pretty big disincentive to productivity when your next dollar, not quite, but nearly half of it is going to go to the Federal Government? Why not cut the top—are you opposed to cutting the top marginal bracket? I guess that is the question.

Mr. ISRAEL. In my view nothing is off the table so long as we have the ability to sustain those reductions and not return to the days of roller coaster tax increases. So I would consider virtually everything that is on the table including reducing that level of taxation.

Mr. SUNUNU. Thank you. Thank you very much.

We go to the other side of the country for our next witness from the great State of Washington, Rick Larsen. Welcome, Congressman. We will include all of your written testimony into the record. And if you feel free, take the 5 minutes to go over the details or to summarize as appropriate.

**STATEMENT OF HON. RICK LARSEN, A REPRESENTATIVE IN  
CONGRESS FROM THE STATE OF WASHINGTON**

Mr. LARSEN. Thank you very much, Mr. Chairman. Thank you for the opportunity to comment today before the House Budget Committee. Thank you as well to Ranking Member Spratt.

My purpose today is to convey the comments that I have heard from my district's constituents regarding the prospects of tax cuts in the relation to Congress's work on the budget. Just recently I met with a group of small business owners, bankers and farmers in Mount Vernon, Washington, which is in the heart of my district. The purpose of the meeting was to hear how the slowing economy was affecting their businesses and to tap into local thoughts and feelings about how best to stimulate our economy. The results were, in fact, enlightening.

First, there seems to be general support for a tax cut, but not support yet for any specific tax package of tax cuts, and the larger the proposed tax cut package, the more skepticism there is about the ability from their perspective of Congress to put together a responsible budget. Why was this, I asked.

The reason for their skepticism was fairly simple. Constituents in my district are skeptical about the real size of the surplus. Their skepticism seems to be borne out by the most recent Congressional Budget Office report which shows that over the next 10 years the surplus could range anywhere from 2.6 trillion to minus \$50 billion, that is depending upon various assumptions. They don't seem to trust Congress to hold the line, period, either on tax cuts or on spending.

As a result, the message from constituents that I received is this: Treat the surplus conservatively and make a tax cut affordable. How to do that? The answer is in the second message from constituents, and that message is this: Show us the budget. Families living in my district would not so much as buy school clothes for their kids or order out for pizza without looking at their budget. Similarly, talking tax cuts before talking budget runs counter to how families in my district would approach their own budgets. The best method, in my view and their view, seems to be to gain support for tax cuts is to show our constituents exactly how much we have to work with, again by showing them the budget first.

Finally, I want to address unfinished business, the unfinished business of the debt. In our meeting one local banker said in relation to a tax cut package, the public doesn't need another political bill. The public wants a practical bill. Practicality suggests that Congress should finish the unfinished business of paying down the debt, and this year's budget should contain a real commitment to this goal of fiscal responsibility.

How do we meet the goal of paying down the debt while taking into account the varying ranges of surplus estimates and the public skepticism about Congress's ability to be fiscally prudent? Three steps. First, again, show the public the budget. They need to know exactly how much is at stake and how much we can realistically commit to a tax cut.

Next, keep tax cuts affordable. Americans, at least in my district, don't want a tax cut necessarily if it means a sky-high national debt. So keeping that in balance.

And third, I would suggest that we should be conservatives and not liberals with estimates of this surplus. Let us not spend money that we really do not have. Spending the surplus is a one-shot deal, and then it is gone. So let us act responsibly, keep tax cuts affordable and maintain the commitment to paying down the debt. We owe that at the very least to our constituents and to the country.

Thank you very much, Mr. Chairman.

Mr. SUNUNU. Thank you very much, Mr. Larsen.

[The prepared statement of Congressman Larsen follows:]

PREPARED STATEMENT OF HON. RICK LARSEN, A REPRESENTATIVE IN CONGRESS  
FROM THE STATE OF WASHINGTON

Mr. Chairman, thank you for the opportunity to testify before the House Budget Committee this morning. My purpose today is to convey the comments I have heard from district constituents regarding the prospect of tax cuts and their relation to Congress's work on the budget.

Just recently I met with a group of small business owners, bankers and farmers in Everett, Washington, the heart of my district. The purpose of the meeting was to hear how the slowing economy was affecting their businesses and to tap into local thoughts and feelings on how best to stimulate our economy.

The results were enlightening. First, there seems to be general support for a tax cut, but not support of any specific package. And the larger the proposed tax cut package, the more skepticism there is about the ability to put together a responsible budget. Why?

The reason for this skepticism is simple: constituents in my district are skeptical about the real size of the surplus. Their skepticism is borne out by the most recent Congressional Budget Office report, which shows that over the next ten years, the surplus could range from \$2.6 trillion to -\$50 billion, depending upon various assumptions. They don't trust Congress to hold the line. Period. On tax cuts or on spending.

As a result, the message from constituents is this: Treat the surplus conservatively and make a tax cut affordable.

How to do that? The answer is in the second message from constituents. That message is this: Show us the budget.

Families living in my district would not so much as buy school clothes for their kids or order out for pizza without looking at their budget.

Similarly, talking tax cuts before talking budget runs counter to how families in my district approach their own budgets. The best method to gain support for tax cuts, it seems to me, is to show our constituents exactly how much we have to work with: again, Show us the Budget.

Finally, I want to address unfinished business—the unfinished business of the debt. In our meeting, one local banker said in relation to a tax cut package, "The public doesn't need another political bill, the public wants a practical bill."

Practicality suggests that Congress should finish the unfinished business of paying down the debt. This year's budget should contain a real commitment to this goal of fiscal responsibility.

How do we meet the goal of paying down the debt, while taking into account the varying ranges of surplus estimates and the public's skepticism about Congress's ability to be fiscally prudent?

This involves three key steps.

First, show the public the budget. They need to know exactly how much is at stake here and how much we can realistically commit to a tax cut. Show us the budget.

Next, keep tax cuts affordable. Americans don't want a tax cut if it means sky-high national debt.

And finally, be conservatives, not liberals with estimates of the surplus. Let's not spend money that we don't really have.

Spending the surplus is a one shot deal and then it is gone. Let's act responsibly. We owe it to our constituents and to our country.

Mr. SUNUNU. Any questions?

Thank you.

Our next witness is Congressman Adam Schiff of California.

Welcome, Mr. Schiff. We appreciate your taking the time.

Belated congratulations for all our new members in winning your elections.

Please feel free to take the 5 minutes to summarize your testimony or highlight any important points. The entire written testimony will be included in the record.

**STATEMENT OF HON. ADAM SCHIFF, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA**

Mr. SCHIFF. Thank you, Mr. Chairman and ranking member. We very much appreciate the invitation you have extended to all the freshmen to have a chance to come and share our budget priorities. We recognize how extraordinary it is for you to invite us this way and very much appreciate it and hope it is repeated frequently by other committees.

We are at an extraordinary juncture, having the surpluses that we do, and I think my luck has been good. I entered the State legislature 4 years ago at a time when we first began surpluses in California, and I arrived here for record surpluses as well. It is an incredible opportunity, and we have been the beneficiaries of an extraordinary economy over the last 8 years. But it is also an important responsibility that we take actions now to foster the continued success of this economy and that we don't squander the opportunities that have presented.

When times are difficult, there is an incentive to spend to stimulate the economy. It is difficult to continue attacking the problem of national debt. When times are good, it is also a time where there is a strong incentive to spend either in the form of tax expenditures or enough spending and also put pressure on our ability to attack the national debt. I think we have to keep first and foremost in mind that I think probably the most successful thing that we have done over the last year in terms of government policy has been a vigorous attack on the national debt.

We are limited in our ability to affect the economy. Small business in particular is the engine of growth in the economy and more determinative of our success or failure economically probably than anything else. But to the degree the government can influence the economic cycles, I think probably the single most important thing we have done over the last 8 years is to get our fiscal house in order, to continue to aggressively paying down our debt, to keep interest rates low. I would hate to see us in this time of surplus go back to policies that will take us into deficit spending and increasing national debt all over again. That would be a tragic mistake to make.

And so I think what we need to do, given that we simply cannot rely on fiscal projections, budgetary projections 5 to 10 years from now, and that is when the strong majority of the surplus is anticipated, it would be most prudent to look at the near term and not rely on rosy economic assumptions about what the economy is going to be doing 5 to 10 years from now, what the surpluses are going to be 5 to 10 years from now.

When we hear figures bandied about about surpluses in the neighborhood of \$5 to \$6 trillion, and we consider half of that is Social Security and Medicare and should be off the table; when we consider that those figures don't even take into consideration tax

cuts that are set to sunset, and that if we assume that they will be extended, as is the likelihood they will be, it further reduces the available surplus; when we consider that even dedicating Social Security and Medicare surpluses to Social Security, Medicare, we still have enormous unfunded liabilities we haven't figured out how to wrestle with, to talk about enormous surplus is really somewhat illusory. I think we have to keep that in mind, otherwise we are going to be headed back down the path of deficits.

I think we ought to take a very strong look at tax cuts that are triggered to a sustained economic growth, to reaching debt targets. This is a technique that we employed in California where we had an enormous tax cut, predominantly in the vehicle license fees. Those were targeted to growth in the economy such that if the economy grew at a certain level, subsequent tax cuts would automatically kick in. As luck would have it, and it was very good luck indeed, the economy was strong, and stronger, in fact, than we expected, and we were able to pass successive legislation accelerating the tax cuts. We didn't even need to wait for the triggers to apply. We were able to accelerate further tax cuts. That was very easy to do. If the projections turn out to be correct or they are even better than we anticipate, it is very easy to accelerate the timetable of further rounds of tax cuts.

On the other hand, if you do not estimate correctly, you estimate much better projections than materialize, dealing with that problem, as you can imagine, is incredibly difficult, and I would urge us to give serious consideration, as difficult as it is, to pegging subsequent rounds of tax cuts, the ultimate size of the tax cut, to significant targets on debt reduction and pick a mechanism that we can assure to the maximum degree possible that those numbers will not be manipulated by whatever agency is given responsibility for coming up with those debt targets.

I would just in closing emphasize that we don't want to find ourselves a few years from now back in deficits. We have an extraordinary opportunity to meet our responsibilities on prescription drug medication, on education, on military defense, and to give a very large tax cut to the American people, which we should do. But let's do it sensibly. Let's keep our fiscal house in order.

I want to thank you for this time.

Mr. SUNUNU. Thank you very much, Congressman.

Mr. SPRATT. Thank you very much.

[The prepared statement of Congressman Schiff follows:]

PREPARED STATEMENT OF HON. ADAM SCHIFF, A REPRESENTATIVE IN CONGRESS  
FROM THE STATE OF CALIFORNIA

Chairman Nussle, Ranking Member Spratt, and members of the committee, I appreciate the opportunity to testify before your committee today as a member of the freshman class of the 107th Congress.

We are at a critical juncture in our nation's history. The last 8 years have brought enormous prosperity to this country. We have had some of the lowest unemployment in decades, the highest rate of home ownership, the longest period of uninterrupted growth—the list of superlatives goes on and on.

The benefits of this economy did not reach everyone, but they nearly did. More effective than any government program, the nation's bustling growth meant the annual "Misery Index" of unemployment and inflation combined was lower than at any point since the 1960's.

Not only did the prosperity mean a higher standard of living for most Americans, it meant that our nation got its fiscal house in order. We went from a period of spi-

raling deficits, poor market confidence and crushing debt service to the unthinkable—surpluses.

Well-respected budget analysts who wrote books just a short time ago with titles like “Why We Will Never Balance the Budget” suddenly found themselves changing the titles of the reprints, not to mention the text.

No one predicted the dramatic growth in our economy. No one foresaw the size of our surplus. Even a year ago, the Congressional Budget Office projected a 10-year surplus of \$3.15 trillion. Now the figure is \$5.5 trillion.

And this is precisely the problem: Who can really say whether the surpluses will continue for the next five or 10 years? And yet many in Washington would have us bet the farm that they will.

Whether it is mammoth new spending, or mammoth new tax cuts, or a combination of the two, any expenditure plan that presupposes a robust economy and ever larger surpluses over the next decade is almost certain to send us back to the days of deficit spending and fiscal irresponsibility.

In the late 1980’s and early 1990’s, when deficits were high and the debt service was enormous, it was difficult to muster the political will to control spending and aggressively pay down the national debt. Even with enormous discipline, government’s ability to influence economic cycles has its limitations—the private sector is the true determinant of growth.

But if any change in governmental policy can be attributed to hastening the end of the last recession and spurring our present success, it was the decision of Congress and the last administration to balance our books and pay our bills.

Now that we are in an era of surpluses—may they last forever—it is no less difficult and no less important to maintain our fiscal discipline and continue paying down our debt. We can and should return a portion of our surplus to taxpayers through tax cuts that will stimulate our economy and eliminate the inequities of the marriage penalty and estate taxes. We can and should make a greater investment in education and health care and strengthen our national defense. But we must make these expenditures in a balanced and thoughtful way that maintains our fiscal discipline, continues to pay down our debt and does not rely on rosy and unrealistic long-term projections.

I am proud to have joined the Blue Dogs, a group that has never lost sight of the importance of a strong fiscal policy. I support the Blue Dog philosophy of advocating a hawkishness on the debt and a 50-25-25 budget framework that allocates 50 percent of the surplus to attacking the national debt and the remaining 50 percent to equal division between tax cuts and new investment. This framework reassures financial markets of the nation’s resolve to maintain fiscal discipline; preserves the resources to strengthen Social Security and Medicare; and provides flexibility in the event of emergencies or should projected surpluses prove illusory.

One method of further assuring that our expenditures do not put us on the path back to deficit spending would involve phasing in a long-term tax plan or spending measure, or pegging its growth to surplus or debt targets. This approach, suggested by Federal Reserve Chairman Alan Greenspan in recent testimony before the Senate Budget Committee, is not unlike that adopted by California. Legislation I coauthored in Sacramento last session enacted major cuts to the vehicle license fee and pegged additional cuts to the growth in revenues. When revenues grew even faster than contemplated by the bill, we passed subsequent legislation to accelerate the tax cuts further.

I look forward to working with our new President on a budget that meets the country’s needs for investment and tax relief and one that keeps the economy prospering with a sensible fiscal policy.

The Blue Dogs have reached out to the President in an effort to work on these issues in a bipartisan way—and he has reached back. But in the process we would be well-advised to keep Greenspan’s caution in mind and “resist those policies that could readily resurrect the deficits of the past and the fiscal imbalances that followed in their wake.”

Mr. Chairman, once again, I appreciate the opportunity to testify today, and I am happy to answer any questions the committee may have.

Mr. SPRATT. Mr. Chairman, Dennis Moore was to testify, but he had to be at a committee hearing. I would like to ask unanimous consent to submit his statement for the record.

Mr. SUNUNU. Without objection.

[The prepared statement of Congressman Moore follows:]

PREPARED STATEMENT OF HON. DENNIS MOORE, A REPRESENTATIVE IN CONGRESS  
FROM THE STATE OF KANSAS

Mr. Chairman, last week the Congressional Budget Office (CBO) issued budget surplus projections that will play an important role in the upcoming budget debate in this committee.

The facts remain, however, that budget projections are often inaccurate, that spending caps are set to expire in fiscal year 2002, and Social Security and Medicare trust funds continue to be counted as general fund revenue—even though large majorities of both parties have agreed to protect these funds.

We must be conservative in using the projected surplus for either tax cuts or new spending. We should continue to make paying off the debt our highest priority for the projected surplus. And, we need to remember that these projected surpluses are exactly that—projections.

Federal Reserve Chairman Alan Greenspan recently warned the Senate Budget Committee that “\* \* \* the risk of adverse movements in receipts is still real, and the probability of dropping back into deficit as a consequence of imprudent fiscal policies is not negligible.”

Even CBO acknowledges that there is tremendous uncertainty in their baseline figures over long periods, and economic circumstances could quickly change projections from surpluses to deficit. If we rush to commit all of the projected surplus funds to tax cuts or new spending measures and the surplus does not materialize, we will be forced to abandon our balanced budget and fall back into deficit spending. We cannot afford to let that happen.

Mr. Chairman, I would like to submit for the record a January 23, 2001, article from the Kansas City Kansan, a January 24, 2001, article from the Salina Journal, and a February 3, 2001, article from the Kansas City Star. Each highlights the dangers of relying on optimistic economic budget forecasts to make long-term budget decisions. Indeed, we do not need to rely on CBO projections, or Federal Reserve Board proclamations, we need only to take a look at states across our nation to see the empirical evidence that the decisions we make today could have drastic economic effects tomorrow.

Mr. Chairman, before this committee begins to develop the annual budget resolution we must agree on reasonable surplus figures that will keep us on the track of fiscal discipline and to prevent the errors of our states. When we craft the budget, we all need to work off of the same page. The following principles are very basic assumptions, already agreed to at various times by the leadership of both parties, on which I hope this committee will follow in crafting the budget resolution:

1. Long-term economic forecasts are inherently uncertain;
2. The size of the available surplus must exclude the Social Security and Medicare trust funds;
3. Realistic assumptions for the growth in discretionary spending must be properly accounted;
4. Surplus projections should incorporate the costs of policies that Congress historically reauthorizes;
5. The baby-boom retirement will place sizable future obligations on the Federal budget, and we must recognize that the surplus totals include funds generated by retirement trust funds (such as the military retirement trust fund), which are already committed to future obligations.

If this committee takes a balanced and prudent approach to managing the surpluses now, our nation will have the economic benefits of tax cuts, national debt reduction, and common sense investment priorities.

Mr. SUNUNU. Our next witness is Congressman Todd Akin, new Member from Missouri. Welcome.

Mr. SPRATT. Mr. Akin, I am sorry I can't stay to hear your testimony, but I have to go to another meeting myself, but I will take a copy of it with me. Thank you very much for appearing.

**STATEMENT OF HON. TODD AKIN, A REPRESENTATIVE IN  
CONGRESS FROM THE STATE OF MISSOURI**

Mr. AKIN. Mr. Chairman and Ranking Member and members of the committee, for the record my name is Todd Akin, Congressman from Missouri, Second Congressional District. That is the St. Louis area.

I know that the committee and this Congress must balance a lot of competing priorities; however, there are two priorities that I believe must receive our highest attention. The first priority must be an immediate tax decrease. First of all, America has a tax surplus. A surplus comes from a direct tax rate on the average American family that is greater than the cost of food and clothing and shelter and transportation all combined. We have a tax surplus. It is time to give the money back where it belongs, and that is to the people.

In addition, the American economy is in need of immediate attention. Our economy reacts to a number of forces, including the high taxes and nonexistent energy policy, a troubled stock market. Now it is time to provide solutions to that slumping economy.

In fact, Federal Reserve Chairman Alan Greenspan has forcefully weighed on this question with two decreases in our interest rates. He went further to support tax cut to jump-start the economy.

The solution is straightforward. We must continue to protect Social Security and Medicare and return the tax surplus through cuts designed to stimulate critical sectors of our economy. If we were to accelerate the President's package to \$2 trillion, the overall cut would still be smaller than the tax cuts that were passed during President Kennedy's and President Reagan's administrations. In fact, the President Reagan package in today's dollars would be a \$5 trillion package. President Bush's tax cut proposal is a modest approach, but I believe we need to accelerate his plan.

We can't let politics get in the way of economics. A strong economy is like sunshine. It is kind to all, and it brings hope of a new day and a promise of yet more American dreams that can become reality.

The second priority, Mr. Chairman, I would suggest is that we must pay attention to our national defense. Through the decades and centuries, in fact, America has a perfect track record of not being prepared for military conflict, starting with the War of Independence and then the War of 1812, World War I, World War II. You take any of our major conflicts and we have never historically been prepared. In an era of deadly weaponry, a lack of preparedness can come at a tragic cost.

Specifically I believe we should pass a limited supplemental defense appropriations bill for fiscal year 2001 at about the \$9- to \$10-billion level to meet funding shortfalls this year.

Secondly, the defense budget for fiscal year 2002 must be adequately funded and must adequately fund national defense. The Congressional Budget Office has identified a \$40- to \$50-billion-a-year shortfall. If these steps are not taken, I believe we will see lack of combat preparedness. The ability to shoot, move and communicate will continue to deteriorate. The flying proficiency of our pilots will deteriorate. Our stockpiles of precision-guided munitions, that are already at half of their level, will continue to drop, and the highly skilled midcareer officers and noncommissioned officers will continue to depart the force. If we don't support defense, why should they?

In summary, I believe we must accelerate the tax cut and provide for adequate defense. I thank the committee for your attention.

Mr. SUNUNU. Thank you very much, Mr. Akin.



[The prepared statement of Congressman Akin follows:]

PREPARED STATEMENT OF HON. TODD AKIN, A REPRESENTATIVE IN CONGRESS FROM  
THE STATE OF MISSOURI

Mr. Chairman, ranking member, members of the committee. For the record, my name is Todd Akin, Congressman for Missouri's second congressional district in the St. Louis area.

I know that the committee and this Congress must balance many competing priorities. However, there are two priorities that I believe must receive our highest attention.

The first priority must be an immediate tax decrease.

America has a tax surplus. The tax surplus comes from a direct tax rate on the average American family greater than the cost of food, clothing, shelter, and transportation combined. We have a tax surplus; it is time to give the money back where it belongs—to the people.

The American economy is in need of immediate attention. Our economy reacts to a number of forces including high taxes, a non-existent energy policy and a troubled stock market. Now is the time to provide solutions to our slumping economy.

Federal Reserve Chairman Alan Greenspan has forcefully weighed in on this question with two decreases in interest rates. He went further in supporting a tax cut to jump-start the economy.

The solution is straightforward. We must continue to protect Social Security and Medicare and return the tax surplus through cuts designed to stimulate critical sectors of the economy.

If we were to accelerate the President's package to \$2 trillion, the overall cut would still be smaller than the tax cut during President Kennedy's and President Reagan's administrations. In fact, President Reagan's package in today's dollars would be \$5 trillion. President Bush's tax cut proposal is a modest approach, but I believe we must accelerate his plan.

We must not let politics get in the way of economics. A strong economy is like the sunshine. It is kind to all, and brings hope of a new day—the promise of yet more dreams that become reality.

The second top priority that must receive attention is defense.

Through the decades and centuries America has a perfect track record of not being prepared for military conflict—War of Independence, War of 1812, World War I, World War II, Korea, etc. We have been very poor at preparedness.

In an era of more deadly weaponry, a lack of preparedness can come at a tragic cost.

Specifically, I believe we should pass a limited Supplemental Defense Appropriations bill for fiscal year 2001 at about the \$9 to 10 billion level to meet funding shortfalls this year.

Secondly, the defense budget for fiscal year 2002 must adequately fund national defense. The Congressional Budget Office has identified a \$40 to 50 billion per year shortfall.

If these steps are not taken we will see:

1. Combat preparedness—the ability to shoot, move and communicate—will continue to deteriorate;

2. The flying proficiency of our pilots will continue to decline;

3. Our stockpiles of precision-guided munitions, already at one-half their required inventories, will drop lower;

4. Highly skilled mid-career officers and noncommissioned officers will continue to depart the force. If we won't support national defense, why should they?

In summary, I believe we must accelerate the tax cut and provide for adequate defense.

I thank the committee for your attention.

Mr. SUNUNU. We have one more Member that wishes to present testimony. We will recess briefly so that he has a chance to arrive and then take his testimony.

[Recess.]

Mr. SUNUNU. The committee will come to order.

Good morning. Welcome, Congressman Langevin. We appreciate your taking the time to be here. We have, as you well know, taken testimony from a number of your colleagues, Democrats and Republicans, new Members of Congress, to get their perspective hav-

ing come really fresh from the campaign trail and being in the great position of coming to Congress without a lot of preconceived notions about what is and isn't achievable, but focusing more on what seems to make sense to your constituents and the citizens that elected you.

Without objection, all of your written testimony will be included in the record, and we would like to take your testimony and allow you the opportunity to highlight important points in your written testimony or to summarize. You have the floor for 5 minutes. Thank you for being here.

**STATEMENT OF HON. JAMES LANGEVIN, A REPRESENTATIVE  
IN CONGRESS FROM THE STATE OF RHODE ISLAND**

Mr. LANGEVIN. Thank you, Mr. Chairman, Ranking Member Spratt and members of the committee. Thank you for giving to me and my fellow members of the freshman class, the opportunity to testify before you today. I am honored to be here and to be participating for the first time in the formation of the Federal budget resolution.

As you know, the budget decisions we make this year will have an enormous impact on the lives of Americans for years to come, and I am grateful for the committee's efforts to solicit input from the newest Members of the House during this critical process.

Let me start by saying that what is most important to me is that out of this process comes a disciplined approach to spending, a strong focus on and commitment to paying down the national debt, and a responsible approach to tax relief.

Imposing this type of fiscal discipline is not a new one to me. When I entered the Rhode Island Legislature in 1989, our State was spending 100 percent of its revenue and saving nothing to guard against a possible downturn. Unfortunately, Rhode Island, like many States, was thrown into a recession where we faced annual deficits of 100- to \$200 million annually on an approximately \$2 billion annual budget.

The State was forced to drastically cut spending on critical programs and devote its energies and resources to managing a fiscal crisis for much of a decade. Ultimately my colleagues and I were obligated to reevaluate our fiscal policy and adopt a more responsible budget strategy.

I was the chief architect of a plan which limited State spending to 98 percent of estimated revenues and required that 2 percent of incoming tax dollars be placed into a budget reserve and cash stabilization account, otherwise known as a rainy day fund. Now Rhode Islanders can take comfort in knowing that the State's budget will only grow as fast as the State's economy, that they have protection against future recessions, and that they boast a bond rating that is among the best in the country.

Because of my experience in the legislature, I feel particularly fortunate to have entered Congress at a time when the tough choices made by my colleagues and predecessors who balanced the budget in 1997 are yielding tangible results. I now strongly believe that it is my duty to maintain the fiscal responsibility that led us here and even to ensure that we do not recreate massive deficits like those that we have just escaped.

As rosy as the budget surplus projections look right now, it is important to remember that they are, in fact, only that, projections. We have no choice but to rely on them to a certain extent in order to set priorities and make long-term fiscal policy decisions; however, we must be wary of assuming that these projections guarantee a decade of more windfall revenues. If this proves not to be the case, we will all suffer as our debt spirals further out of control, funding is scarce for some of the basic Federal programs, and the solvency of Social Security and Medicare becomes a goal that is no longer in reach.

Let us not forget that it was only until very recently that we struggled with annual budget deficits of \$200 billion, a national debt of \$5.6 trillion, and interest only payments on that debt of \$300 billion annually. To put it into perspective, those interest payments represented more than we were spending on Medicare and almost as much as we were spending on the entire national defense budget.

Therefore, I hope this Congress will not act hastily on individual elements of the budget, but will instead wait until we have agreed upon an overall budget framework within which to make decisions. I intend to ensure that there is room for a range of priorities in our budget picture before I decide to support use of the surplus for any one major initiative.

Retiring the national debt is a paramount concern and should inform every aspect of our budget policy. I want to be secure in the knowledge that our debt will continue to be reduced and that our children and grandchildren will not have to shoulder the burden of recklessness. In addition, paying down the debt will result in the one of the best tax cuts that we can provide to American working families. Reduction and elimination of the debt will ensure low-interest rates and a sound long-term economic future for the Nation.

Furthermore, I believe that we should use our current prosperity to enhance those Federal programs relied upon by some of the most vulnerable members of our society. First and foremost, of course, our senior citizens as well as younger generations looking toward their eventual retirement deserve to know that the Social Security System will be strong and viable whether they need it now or in 20 years. Likewise, we must reform and strengthen Medicare without slashing benefits or increasing costs for seniors, and provide a prescription drug component so that no one is forced to choose between medicine and groceries or heat for their home.

We must also set aside a sufficient portion of the budget for other critical needs, including reform of our elementary and secondary education system, provision of the benefits and care America's veterans have earned and deserve, and maintenance of a strong national defense with soldiers who receive a fair wage for their service to our country.

Mr. Chairman, would it be your preference that I finish?

Mr. SUNUNU. Without objection, feel free to take as much time as you need.

Mr. LANGEVIN. Thank you, Mr. Chairman.

Also as a former Rhode Island secretary of state who presided over a wholesale reform and modernization of the State's antiquated voting system, I am also very concerned about election re-

form. Specifically I believe our budget must reflect the importance of this issue by including sufficient funding to ensure every precinct in this country is equipped with modern voting equipment that is reliable and accessible to all voters.

I will be working with many of my colleagues to make progress on this issue well in advance of the next Federal election. Knowing that there is a place in our budget framework for meaningful action on electoral reform will make the road ahead much smoother.

Finally, we all want to reward hard-working families by returning some of their tax dollars, but this cannot come at the expense of our Nation's future fiscal stability. Therefore, I strongly recommend that any tax relief supported by this Congress be phased in and contingent upon two important conditions: First, the reality of our annual revenues must meet expectations created by current projections. Second, we must have a defined plan for paying down the national debt, and the targets laid out in this plan must be met.

In other words, I support tax relief that is triggered only when those two critical goals are met. I would also favor a tax cut that is limited to a certain percentage of the Federal surplus so that if surpluses are lower than projected, we will not find ourselves trapped by promises it is no longer responsible to keep.

These precautions will ensure that lower tax rates do not come at the expense of fiscal discipline and will encourage Members eager to give something back to their constituents to channel their energies into a responsible course of debt reduction and long-term fiscal responsibility.

Again, Mr. Chairman, thank you for allowing me to be part of this important discussion. There are many tough challenges ahead, but I believe that with cooperation and an eye toward operating within a responsible framework, this Congress can develop a budget that will ensure America's needs are met and hard-working taxpayers are given the relief they deserve. I thank you for your time.

Mr. SUNUNU. Thank you, Mr. Langevin. I appreciate your time and your testimony.

[The prepared statement of Congressman Langevin follows:]

PREPARED STATEMENT OF HON. JIM LANGEVIN, A REPRESENTATIVE IN CONGRESS  
FROM THE STATE OF RHODE ISLAND

Mr. Chairman, Ranking Member Spratt and members of the committee, thank you for giving me and my fellow Members of the freshman class the opportunity to testify before you today. I am honored to be here and to be participating for the first time in the formation of the Federal budget resolution. As you know, the budget decisions we make this year will have an enormous impact on the lives of Americans for years to come, and I am grateful for the committee's efforts to solicit input from the newest members of the House during this critical process.

Let me start by saying what is most important to me is that out of this process comes a disciplined approach to spending, a strong focus on and commitment to paying down the national debt, and a responsible approach to tax relief.

Imposing this type of fiscal discipline is not a new concept to me. When I entered the Rhode Island Legislature in 1989, the state was spending 100 percent of its revenue and saving nothing to guard against possible downturns. Unfortunately, Rhode Island, like many states, was thrown into a recession where we faced annual deficits of \$100 million to \$200 million on an approximately \$2 billion annual budget. The state was forced to drastically cut spending on critical programs and devote its energies and resources to managing a fiscal crisis for close to a decade.

Ultimately, my colleagues and I were obligated to re-evaluate our fiscal policy and adopt a more responsible budget strategy. I was the chief architect of a plan which

limited state spending to 98 percent of estimated revenues and required that 2 percent of incoming tax dollars be placed in a rainy day fund. Now Rhode Islanders can take comfort in knowing that the state's budget will only grow as fast as its economy, that they have protection against future recessions, and that they boast a bond rating that is among the best in the country.

Because of my experience in the Legislature, I feel particularly fortunate to have entered Congress at a time when the tough choices made by my colleagues and predecessors who balanced the budget in 1997 are yielding tangible results. I now strongly believe that it is my duty to maintain the fiscal responsibility that led us here and ensure that we do not recreate massive deficits like those we've just escaped.

As rosy as the budget surplus projections look right now, it is important to remember that they are in fact only that: projections. We have no choice but to rely on them to a certain extent in order to set priorities and make long-term fiscal policy decisions. However, we must be wary of assuming that these projections guarantee a decade or more of windfall revenues. If this proves not to be the case, we will all suffer as our debt spirals further out of control, funding is scarce for some of the most basic Federal programs, and the solvency of Social Security and Medicare becomes a goal that is no longer in reach.

Let us not forget it was only very recently that we struggled with annual budget deficits up to \$290 billion, a national debt of \$5.6 trillion, and interest-only payments on that debt of \$300 billion annually. Put into perspective, those interest payments represented more than we were spending on Medicare, and almost as much as our entire national defense budget.

Therefore, I hope this Congress will not act hastily on individual elements of the budget, but will instead wait until we have agreed upon an overall budget framework within which to make decisions. I intend to ensure that there is room for a range of priorities in our budget picture before I decide to support the use of the surplus for any one major initiative.

Retiring the national debt is a paramount concern that should inform every aspect of our budget policy. I want to be secure in the knowledge that our debt will continue to be reduced and that our children and grandchildren will not have to shoulder the burden of our recklessness. In addition, paying down the debt will result in one of the best tax cuts we can provide to America's working families. Reduction and elimination of the debt will ensure low interest rates and a sound long-term economic future for the nation.

Furthermore, I believe we should use our current prosperity to enhance those Federal programs relied upon by some of the most vulnerable members of our society. First and foremost, of course, our senior citizens, as well as younger generations looking toward their eventual retirement, deserve to know that the Social Security system will be strong and viable, whether they need it now or in 20 years. Likewise, we must reform and strengthen Medicare, without slashing benefits or increasing costs for seniors, and provide a prescription drug component so that no one is forced to choose between medicine and groceries or heat for their home.

We must also set aside a sufficient portion of the budget for other critical needs, including reform of our elementary and secondary education system, provision of the benefits and care America's veterans have earned and deserve, and maintenance of a strong national defense with soldiers who receive a fair wage for their service to our country.

As a former Rhode Island Secretary of State who presided over a wholesale reform and modernization of the state's antiquated voting system, I am also very concerned about electoral reform. Specifically, I believe our budget must reflect the importance of this issue by including sufficient funding to ensure every precinct in this country is equipped with modern voting equipment that is reliable and accessible to all voters. I will be working with many of my colleagues to make progress on this issue well in advance of the next Federal election. Knowing that there is a place in our budget framework for meaningful action on electoral reform will make the road ahead much smoother.

Finally, we all want to reward hard-working families by returning some of their tax dollars, but this cannot come at the expense of our nation's future fiscal stability. Therefore, I strongly recommend that any tax relief supported by this Congress be phased in and be contingent upon two important conditions. First, the reality of our annual revenues must meet the expectations created by current projections. Second, we must have a defined plan for paying down the national debt, and the targets laid out in this plan must be met.

In other words, I support tax relief that is triggered only when these two crucial goals are met. I would also favor a tax cut that is limited to a certain percentage

of the on-budget surplus, so that if surpluses are lower than projected, we will not find ourselves trapped by promises it is no longer responsible to keep.

These precautions will ensure that lower tax rates do not come at the expense of fiscal discipline, and will encourage members eager to give something back to their constituents to channel their energies into a responsible course of debt reduction and long-term fiscal responsibility.

Again, Mr. Chairman, thank you for allowing me to be a part of this important discussion. There are many tough choices ahead, but I believe that with cooperation and an eye toward operating within a responsible framework, this Congress can develop a budget that will ensure America's needs are met and hardworking taxpayers are given the relief they deserve.

Mr. SUNUNU. With that, the committee is adjourned. Thank you.  
[The prepared statement of Congressman Simmons follows:]

PREPARED STATEMENT OF HON. ROB SIMMONS, A REPRESENTATIVE IN CONGRESS  
FROM THE STATE OF CONNECTICUT

In addition to the priorities mentioned by freshman class president Schrock, I would add the following items:

- A Federal prescription drug subsidy for State-based programs.
- Getting military personnel off food stamps and improving the quality of life.
- Prioritizing the disposal of our Nation's high-level nuclear waste by allowing for its transport to a designated site at Yucca Mountain.

In conclusion, I look forward to working with you and other members of the committee on crafting a budget resolution that:

- provides tax relief for working families;
- strengthens our military and removes personnel from food stamps;
- improves educational opportunities for all children;
- addresses the issue of nuclear waste;
- pays down the national debt; and
- protects Social Security and Medicare.

Thank you, Mr. Chairman for giving me the opportunity to address the Budget Committee.

[Whereupon, at 12:40 p.m., the committee was adjourned.]

