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# Congress of the United States

## U.S. House of Representatives

COMMITTEE ON WAYS AND MEANS

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February 18, 2005

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MINORITY CHIEF COUNSEL

The Honorable John Spratt  
Ranking Member  
Committee on the Budget  
B-71 Cannon House Office Building  
Washington, D.C. 20515

Dear Ranking Member Spratt:

Yesterday, the Ways and Means Committee Republicans forwarded to you and your colleagues a letter transmitting the "views and estimates" of the Committee on Ways and Means "on those aspects of the Federal budget for year 2006 which fall within the Committee's jurisdiction," and the appropriate debt limit for the upcoming fiscal year. I am writing to advise you that the Committee Democrats do not concur with many of the statements and priorities presented in that correspondence. The Republicans' letter is deficient, in some areas, and misleading in others.

The following are comments regarding Social Security, the budget for fiscal year 2006, the United States economy, the deficit and the debt limit, taxes, health, human resources, and trade. Also, it would be most helpful to the Committee and the American public if bipartisan field hearings were held to address many of these issues.

Up front, it should be noted that the Republicans' letter presents quite a surprise. The President's Social Security privatization plan is not listed as one of the Committee's priorities for fiscal year 2006. In fact, their list of priorities only refers to policies affecting retirement security in general. The letter does not say what, if any, action the Committee plans to take on the President's plan, if and when he presents one. It is important that the Congress know whether the Committee intends to hold hearings, develop legislation, or wait for the President's plan. Nor is there any mention of a time line for developing and enacting Social Security legislation. It is unclear if the Committee intends to proceed in the long or short term.

At a minimum, it would seem that the Committee should explore how the substantial costs of the President's plan will be funded: will taxes be raised, Social Security benefits be cut, or will the federal debt increase? Federal Reserve Chairman Greenspan recently cautioned that the U.S. economy cannot handle these costs if they involve trillions of dollars of additional debt. The Republicans' letter should have given some indication of what the Committee plans to do to address the fiscal challenges facing the Social Security program, including analysis of the impact and costs of various approaches to changing Social Security's structure, benefits, and financing.

The Republicans' letter fails to address the fact that the President's budget for fiscal year 2006 does not include the significant costs associated with major programs within the Committee's jurisdiction. First and foremost, the budget does not include the costs associated with Social Security "reform." Estimates are that the President's plan will cost \$1.4 trillion dollars over just the first ten years it is in effect, and \$3.5 trillion over the second ten years. Also, the President's budget excludes any proposal and any costs for relief from the alternative minimum tax (AMT), which the Congressional Budget Office (CBO) estimates would cost nearly \$800 billion over ten years if provided along with permanent extension of the tax cuts. Further, the costs associated with addressing Medicare physician payment levels under current law are omitted. Preliminary estimates from the CBO and the Office of the Actuary indicate that these actions could cost up to \$10 billion over ten years.

The Republicans' letter also cites CBO estimates of a unified budget deficit of \$295 billion, or 2.3% of Gross Domestic Product (GDP), for fiscal year 2006. In fact, this is a baseline estimate based on current law only, leaving out costs of war in Iraq and proposed permanent extensions of the Bush tax cuts. Thus, according to CBO, the 2005 deficit is likely to total around \$400 billion, and the 2006 deficit well over \$300 billion, once the extra war spending alone is included. CBO's supplemental estimates of the budgetary effects of a combination of likely Republican policies—including war costs and extension of tax cuts, as well as continued AMT relief—show that "true budget deficits" are likely to remain near \$400 billion per year for the next five years, and to grow to nearly \$500 billion per year within ten years.

The Republicans' letter discusses how more than 2.2 million jobs were created in 2004 and that the unemployment rate has declined. In fact, since January 2001, employment gains have fallen several million jobs short of even keeping up with population growth, and all measures of unemployment are up. Over the *four years* of the President's first term in office, only 119,000 jobs were added, fewer than the number of jobs that should have been created in just *one month*. Even the 2.2 million jobs added in 2004 fell short of the Administration's own forecast by nearly 1 ½ million jobs. In other words, despite the fact that the economy has been in "recovery" for over three years, it has clearly been a "jobless recovery."

Also, the Republicans' letter discusses how the level of federal tax receipts has increased and that the CBO projects receipts will increase further this year. In fact, CBO notes, in the same report cited by the Republicans, that federal revenues as a share of GDP have steadily declined from 20.9 percent in 2000 to 16.3 percent in 2004, the individual income tax share (at 7 percent in 2004) was lower as a percentage of GDP than in any year since 1951, and the level projected for 2005, although higher, is still unusually low by postwar standards.

The Republicans' refusal to acknowledge the danger of increasing deficits to our economic recovery is evident in their letter's section on the public debt limit. The House Rule which mandates the annual "views and estimates" letter specifically requires that the Ways and Means Committee recommend an appropriate debt limit for the upcoming fiscal year. The Republicans' letter only provides a simple factual statement that the "current statutory public debt limit is \$8.2 trillion," a level that CBO forecasts will be reached early in fiscal year 2006. It is important that the Congress know that the public debt limit has been raised three times in the past four years, by a total of \$2.2 trillion, and that over ninety percent of the increase in the net public debt (debt held by the public) has been financed by foreigners.

In addition to leaving out Social Security reform, the Republicans' reference to the Committee's priorities for 2006 also fails to include providing AMT relief for individual taxpayers. There is a critical need to address the AMT before more and more middle-income taxpayers become subject to additional taxes over the next few years. The deepening reach of the AMT has been largely due to the Bush tax cuts and has disguised the true cost of the tax cuts. In their budget and economic outlook, the CBO reports that the number of AMT households will dramatically increase—from 4 million to 19 million in just one year—without extension of AMT relief beyond what current law provides through 2005. Further, the Republicans' letter refers generally to consideration of tax reform and simplification options. It is important that any such tax reforms be crafted in a way that treats all taxpayers fairly, and not shift taxes to middle and lower-income taxpayers or to the labor workforce. It is also critical that any such tax reforms be revenue neutral so as to not further increase the federal deficit. As Federal Reserve Chairman Greenspan has recently explained to Congress, legislation designed to stimulate private saving will promote economic growth only to the extent which it truly boosts *national* saving, so that it is "imperative to restore fiscal discipline" and not harm public saving by more than private saving is encouraged.

The Republicans' reference to the Committee's anticipated oversight of implementation of the new Medicare Prescription Drug, Improvement and Modernization Act (MMA) is much too narrow. Clearly, the Committee should expand its review to include examination of the financial status of the Medicare Hospital Insurance Trust Fund, the 45% trigger created in the MMA, and the effects that MMA has on Medicare's financial outlook. Also, there appears to be no effort by Republicans to oversee implementation of the Health Savings Account (HSA) provisions. Given that HSAs are, in many ways, a centerpiece of the Republicans' health agenda, the Committee should take an active role in monitoring the implementation and adoption of these accounts to evaluate their effect on both participants and, importantly, non-participants.

The Republicans' letter fails to mention any effort to deal with the fact that poverty has risen for the last three years (based on the most recently-available data). Also, while the Republicans' letter references efforts to reauthorize the Temporary Assistance for Needy

Families (TANF) program, it does not mention any plans to maintain child care assistance for working families. The General Accounting Office has reported that at least twenty-three states have cut child care assistance since 2001. In response, the House passed a partisan TANF reauthorization bill in 2003 that does not allow child care funding to maintain pace with inflation, while simultaneously adding new unfunded work requirements that may stimulate even further cuts in child care assistance for low-income working families.

The Republicans' letter does not include on its list of agenda items numerous matters of critical importance. Omitted are:

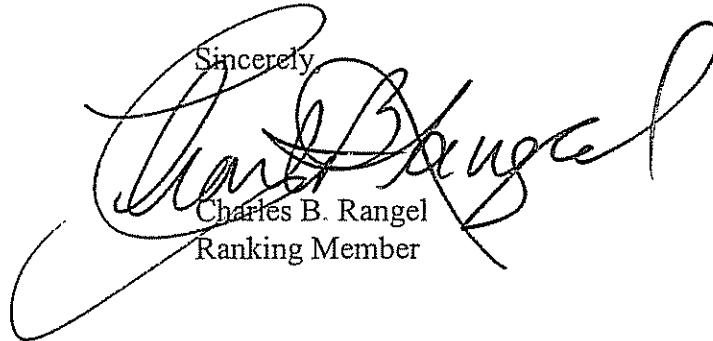
- Passage of legislation extending trade preferences to Haiti;
- Oversight of the Administration's trade policy with respect to the loss of 2.8 million manufacturing jobs since January 2001 and the growing problem of offshoring in service industries, and legislation to address these vital economic issues;
- Oversight and possible legislation with respect to the massive and growing \$617 billion trade deficit;
- Oversight and possible legislation with respect to the massive and growing trade imbalance with China, issues related to China's manipulation of currency valuation, as well as persistent market access barriers in China in the agricultural, industrial and services sectors, and chronic problems with China's adherence to intellectual property rights, including as provided for under the World Trade Organization (WTO) Agreement on Trade-Related Aspects of Intellectual Property Rights, and the Administration's failure to date to address these problems successfully;
- Oversight of the failure of WTO negotiations to conclude as scheduled in December 2003, actions of the Administration that might have contributed to that failure, and any changes to Administration policy in light of the failure to conclude WTO negotiations on schedule;
- Hearings on implementation of the 2004 AGOA (African Growth and Opportunity Act) Acceleration Act, and additional legislation to strengthen the trade and investment relationship between the United States and sub-Saharan Africa;

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- With respect to any Free Trade Agreements (FTA) notified to Congress in 2005, and with respect to the six agreements notified to Congress in 2003 and 2004, the Committee's use of the 90-day period as provided in the Trade Act of 2002, to hold hearings and provide other opportunities for comments on and any suggested changes to the draft agreements;
- Oversight of market access problems in key bilateral markets, including Brazil, China, the European Union, India, Japan, and Korea, as well as other countries;
- Oversight of the ongoing economic impact of U.S. sanctions with respect to Cuba, and the Administration's failure to date to address this issue; and
- Oversight hearings on the impact of the elimination of quotas on textile and apparel products effective January 1, 2005, under the WTO Agreement on Textiles.

This letter is not intended to be a full critique of the Republicans' letter and budgetary agenda or a comprehensive list of Democratic priorities. The Democrats felt it necessary to write your Committee separately to make it clear that the official letter sent to you does not fully reflect the views and estimates of the Committee as a whole. Rather, we consider it a political statement from the Republicans on the Committee on Ways and Means.

Sincerely,

A large, stylized handwritten signature in black ink, which appears to read "Charles B. Rangel". The signature is written over the typed name and title.

Charles B. Rangel  
Ranking Member

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February 17, 2005

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JANICE MAYS,  
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The Honorable Jim Nussle  
Chairman  
Committee on the Budget  
309 Cannon House Office Building  
Washington, DC 20515

Dear Mr. Chairman:

As required by Section 301(d) of the Congressional Budget Act of 1974, and in response to your letter dated January 18, 2005, this letter transmits the views and estimates of the Committee on Ways and Means on those aspects of the Federal budget for the fiscal year 2006 which fall within the Committee's jurisdiction.

The U.S. economy performed very well in 2004. Real growth averaged 4.4 percent, more than 2.2 million jobs were created and by all measures, the unemployment rate has declined. Federal tax receipts increased 5 percent and the Congressional Budget Office (CBO) projects that under current law receipts will increase 9 percent further this year. For fiscal year 2006, the CBO estimates a unified budget deficit of \$295 billion, or 2.3 percent of Gross Domestic Product.

The Committee will continue to promote economic growth-enhancing policies through the consideration and adoption of appropriate tax, health, human resources and trade legislation and expects to focus on the long-term challenges facing future retirees through a variety of policies that affect retirement security.

The Committee's priorities are also expected to include additional tax reforms, expanding trade, reauthorizing the Temporary Assistance for Needy Families (TANF) program, eliminating waste, fraud, and abuse, and addressing concerns of those without health insurance.

#### I. Legislative Issues with Budgetary Impact

- A. Human Resources – The Committee will work on reauthorization of the TANF program. The program's original authorization expired at the end of fiscal year 2002, and it has been continued temporarily until March 31, 2005. The Committee will work to reauthorize Individual Development Accounts, which expired at the end of fiscal year 2003 and were

first authorized as part of the 1998 Assets for Independence Act (P.L. 105-285). Other legislative proposals from Congress and the President that may require Committee action include improving the child support, child protection, unemployment benefits, and Supplemental Security Income (SSI) programs. Committee oversight of the nation's welfare, child care, child support, adoption and foster care, SSI, and unemployment benefit programs will continue.

- B. Medicare and Other Health Issues – The Committee will continue its efforts to ensure implementation of the Medicare Prescription Drug, Improvement and Modernization Act (MMA) (P.L. 108-173) consistent with Congressional intent. The numerous changes made by MMA make oversight of implementation critical to ensure there is little or no disruption for seniors or providers in receiving or delivering benefits. In addition, the Committee is interested in examining ways to reduce waste, fraud and abuse in the Medicare program. The Committee is also examining all of Medicare's payment systems to ensure reimbursements to providers are appropriate and that quality is rewarded. Finally, the Committee plans to examine strategies to reduce the number of Americans without health insurance and allow consumers greater choice in obtaining health care.
- C. Social Security – The Committee will carefully consider the financial challenges facing Social Security and will work to achieve the necessary improvements to Social Security's programs. Effective stewardship of Social Security programs will remain part of this year's agenda, as will protecting Social Security numbers from misuse. The Committee also will review the Commissioner of Social Security's plan to improve the disability determination process, implementation of ticket-to-work programs, and the agency's efforts to educate the public and effectively deliver services.
- D. Tax – The Committee expects to examine options for tax reform and simplification for the American people in support of economic growth. The Committee anticipates consideration of a revenue title for a highway reauthorization bill. The Committee will consider the President's budget and tax reform proposals, including those proposals for permanent tax relief. Further legislative action to extend expired and expiring provisions, to enhance retirement savings, to encourage production, transmission and conservation of energy as well as to promote charitable giving are also expected. The Committee will continue to develop options for expanding access to health insurance coverage and to examine growing concerns caused by the individual and corporate alternative minimum taxes.
- E. Trade - The Committee supports the expansion of trade opportunities, adherence to trade agreements and rules by our trading partners, and the elimination of foreign trade barriers to our goods and services. The Committee expects to continue its oversight responsibilities with respect to the World Trade Organization negotiations and new bilateral free trade agreements (FTAs). At the appropriate time, the Committee expects to consider legislation, under Trade Promotion Authority (TPA) procedures, to implement FTAs that have been signed by the President and submitted to Congress. The Committee intends to work with the Administration under the terms of the Trade Act of 2002 (P.L. 107-210), given the expiration of TPA in 2005 unless the Administration requests renewal until 2007.

The Committee will continue to be active in overseeing agencies within its jurisdiction and on trade preference legislation. Finally, the Committee intends to consider legislation suspending certain duties temporarily to make U.S. companies more competitive.

II. The Fiscal Year 2006 Budget


The Committee is reviewing the President's Fiscal Year 2006 Budget. The President's proposed budget envisions continued economic growth in 2005 and 2006, restrained federal spending, and tax legislation to encourage sustained growth through tax cut permanency and a lower tax burden on personal savings.

III. Public Debt Limit

The current statutory public debt limit is \$8.2 trillion. Assuming current law, CBO forecasts that the limit will be reached early in fiscal year 2006. The Committee will continue to monitor the level of outstanding debt, and will take any necessary action to ensure the consistent financing of government operations.

The Committee on Ways and Means looks forward to working with the Committee on the Budget as we promote prosperity, opportunity, and security while maintaining fiscal prudence.

Best regards,

A handwritten signature in black ink that reads "Bill Thomas". The signature is written in a cursive style with a long, sweeping underline.

Bill Thomas  
Chairman