



PETER DeFAZIO

R E P O R T S

\$370 Billion Trade Deficit

Failed U.S. trade policy led to a record trade deficit of \$370 billion dollars last year and major job loss in our country. The U.S. trade deficit with China, a country that blatantly excludes U.S. manufactured goods and has abysmal labor and environmental standards, rose to \$83 billion last year. Japan followed closely at \$81 billion, and our pre-NAFTA surplus with Mexico deteriorated into a \$24 billion deficit. Yet the Administration is proposing a massive expansion of NAFTA, the Free Trade Area of the Americas (FTAA), that will accelerate our deficit and job loss, and further compromise our sovereignty.

NAFTA Trucks

In early January, a secret trade tribunal found the U.S. in violation of the North American Free Trade Agreement (NAFTA) over its restrictions on trucks crossing the border from Mexico. Unfortunately, the Administration has done nothing to challenge the ruling.

The Mexican trucking industry is notorious for its lax safety and environmental standards. Their trucks, with drivers who are often forced to work 16 hour days, are considerably heavier than American trucks, are rarely labeled when they carry hazardous materials, and come from a country that has a vehicle fatality rate three times higher than the U.S.

Currently, travel is limited to within 20 miles of the border for the four million Mexican trucks that enter the country. Fewer than one percent of those trucks are inspected, and more than 35 percent fail and are sent back. Under this ruling, it is estimated that a total of seven million trucks could enter the U.S. without restrictions.

I strongly urged the President to restrict dangerous Mexican trucks from unlimited entry into the U.S. I support legislation to hire additional inspectors to stop those trucks at the border, and also asked the Governor and the Oregon Legislature to find emergency funding for additional inspectors at Oregon's border.

Canadian Softwood Lumber

The U.S.-Canada Softwood Lumber Agreement, which limits the amount of lumber Canada may export to this country, expired March 31. If the U.S. does not negotiate another agreement, the U.S. market will likely be flooded with inexpensive, subsidized Canadian lumber. A five percent increase would eliminate 8,000 Northwest jobs.

The Canadian government owns 95 percent of the timberland in Canada and sells it to mills at up to 50 percent below its market value. Their harvest practices are reminiscent of those the U.S. used 50 years ago, with no regard for sustainability or environmental protection.

I played an important role in forcing the original restrictions on Canadian lumber five years ago, under the Clinton Administration. If the current Administration refuses to negotiate another agreement, I will introduce legislation to force sanctions and tariffs against Canada.

Higher Gas Prices Loom Again

In March, the Organization of Petroleum Exporting Countries (OPEC) announced further restrictions in the production and export of oil. The Bush Administration, like the previous Administration, has refused to file a trade complaint against OPEC for unfair trade practices.

I introduced legislation to require the President to file a case with the World Trade Organization (WTO) against OPEC, charging the oil



Dear Friend:

The good news from our nation's capitol is that the federal government is likely to run a surplus for the second year in a row. The bad news is that my colleagues in Congress are **rushing through a combination of huge 10-year tax cuts** and spending increases that threaten to return us to the days of towering deficits. I've been busy trying to inject a little common sense into the debate, and have introduced an alternative budget and tax cut plan. (See p.2)

However, my major focus the last three months has been on the **escalating energy crisis in the Western U.S.** The failed California deregulation scheme is now threatening BPA and the Pacific Northwest. I opposed deregulation as a consumer rip-off from day one. But it is not enough to say I was right. We need decisive action to stave off huge price hikes and the prospect of rolling blackouts here at home. (See articles on p.3).

I also continue to fight for fair trade. We have lost hundreds of thousands of family wage manufacturing jobs to unfair overseas competition that abuses workers and pollutes the environment. Mexican trucks will soon compromise highway safety here in Oregon and subsidized Canadian lumber manufacturers are threatening to ruin our struggling mills. (See left.)

I'm still commuting almost every week between Washington, D.C. and Oregon, and I traveled throughout Southwest Oregon in April conducting 13 town hall meetings. I also enjoy the opportunity to meet with Oregonians while they're visiting D.C., like the Azalea Middle School students from Brookings (see photo above). As always if you have questions or concerns feel free to phone, e-mail or write. Your thoughts are important.

Sincerely,

producing countries with illegally restricting exports. I am not a fan of the WTO, but if the U.S. is bound by their decisions, other countries should abide by them as well.

We have to do all that we can in the short term to mitigate price gouging by the OPEC cartel and oil companies. But in the long term, we need to develop a comprehensive energy policy which includes strong mandates for conservation and in energy efficient transportation.

It Can Get Worse

Despite the obvious failure of U.S. trade policy, the response of the Administration is to negotiate more of the same.

The Administration is currently involved in secret negotiations to expand NAFTA to the entire Western Hemisphere under the Free Trade Area of the Americas (FTAA). The President will attempt to push these negotiations through Congress under fast track authority with no amendments and limited debate on the issue.

I will fight as hard against giving fast track authority to President Bush as I did with former President Clinton.

The True Cost of the President's Tax Cut

Independent analysts have placed the cost of the President's tax plan at \$2.6 trillion or more, not \$1.6 trillion as the Administration claims.

Here's why:

START WITH

- President Bush's estimate of tax package: **\$1.6 trillion**

ADD

- Making a small part of the tax cut retroactive: **\$0.1 trillion**
- Extending a number of expiring tax credits: **\$0.1 trillion**
- Amending the Alternative Minimum Tax: **\$0.3 trillion**
- Promised cuts not included in the basic tax cut package (e.g. health care coverage, long-term care, teachers, housing): **\$0.1 trillion**
- Additional interest payments from paying down debt more slowly: **\$0.4 trillion**

ACTUAL

Cost of keeping tax cut promises: \$2.6 trillion*

*The Fine Print

The total projected non-Social Security, non-Medicare surplus only totals \$2.6 trillion. Therefore, if the President wants to cut taxes by \$2.6 trillion and keep his promises to increase education and defense spending or provide a Medicare prescription drug benefit, he can only do so by running budget deficits or dipping into the Social Security and Medicare trust funds.

A More Fiscally Responsible Approach to Projected Surpluses

The DeFazio Budget Framework:

- ➊ **Reserve Social Security** (\$2.5 trillion) and **Medicare surpluses** (\$392 billion) to meet our obligations to current and future beneficiaries.
- ➋ **Divide real non-Social Security and non-Medicare surpluses** (currently projected at \$2.7 trillion) into thirds:
 - 1/3 for additional **debt reduction**;
 - 1/3 for **targeted tax cuts**;
 - 1/3 for **investments in education, health and other priorities**.
- ➌ If projected surpluses materialize, this proposal will provide around \$900 billion for each of these areas.

This proposal pays off available debt by 2008.

Perils of Tax Cuts & Phantom Surpluses

The House recently approved the first installment of the President's \$2.5 trillion tax plan. This massive tax cut was pushed through before Congress even approved a federal budget, and debate was prematurely cut off after two hours, with no amendments permitted.

Why the rush? What was the House leadership afraid of? They must have been worried the American people would find out about the fragile assumptions being used to justify the tax cut.

Congress shouldn't gamble with our future by locking in huge tax cuts today, based on a future projected surplus. Even the Congressional Budget Office (CBO), headed by a Republican appointee, has pointed out the tenuous nature of its own projections. CBO noted in a recent report that the budget could fall into deficit by 2006, even without tax cuts, if its economic and demographic assumptions are off just slightly (see graph). For example, the CBO estimates annual economic growth of 3.3 percent, but we're far below that this year. For every one-tenth of one percent CBO is off in its 10 year economic growth estimate, the 10 year surplus plummets by \$244 billion.

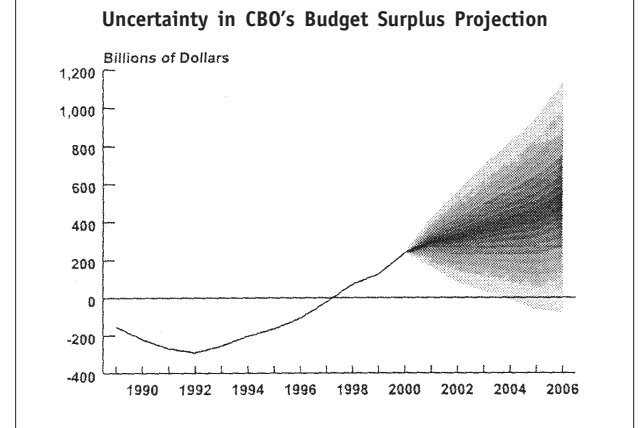
The same government economists who just a few years ago, projected deficits "as far as the eye can see" are now projecting fantastic surpluses. If they were so wrong then, how can we be sure they're right now? Like weather forecasts, budget forecasts are frequently wrong.

The danger of over-committing resources based on long-term projections can be seen in the President's home state of Texas. In the winter of 1999, the Texas budget was projected to be in surplus by \$6.4 billion. Then-Governor Bush successfully pushed through two tax cuts. A combination of slower economic growth and rising health care costs, linked to tax cuts, led the state to its current deficit of \$700 million. I don't want the same thing to happen with the federal budget.

There is a more responsible alternative. First, Congress should fully fund our obligations to the Social Security and Medicare trust funds. If non-Social Security and non-Medicare surpluses actually materialize, they should be divided as follows: **one-third for debt reduction** (the national debt stands at \$5.6 trillion today—every American's share is \$20,000), **one-third for critical investments like education and infrastructure repair**, and **one-third for targeted tax cuts**. If current projections hold over the next decade, this framework would provide around \$900 billion for each third.

A family would never spend its entire projected lifetime earnings this year under the assumption future wages would cover the spending spree. The federal government shouldn't either.

The Surplus Isn't In the Bank...and May Never Be



Source: Congressional Budget Office.

Education

Education is the one issue that seems to have gained some consensus from both sides of the aisle. The President provided substantial improvements in education funding under his proposed budget. But my alternative budget

adds to those education proposals in a number of ways including:

- \$5 billion for new school construction, and \$23 billion for school renovations.
- \$20.4 billion to hire new teachers, decrease class size, and improve teacher compensation and training.
- \$13 billion to hire 100,000 school counselors.

Honoring Veterans

My alternative budget provides a \$5.1 billion increase in veterans programs over the President's budget, including increases in: VA medical care and research, the Montgomery GI Bill, the National Cemetery Administration, and the Veterans Benefits Administration to improve the servicing of veterans' claims.

I am also sponsoring a number of bills to benefit America's veterans:

- The **Retired Pay Restoration Act** (HR 303) permits payment to retired members of the armed forces with service-connected disabilities for both military retired pay and veterans' disability compensation.
- The **Keep Our Promise to America's Retirees Act** (HR 179) allows military retirees (or surviving spouses) to enroll in the Federal Employees Health Benefits (FEHB) program.

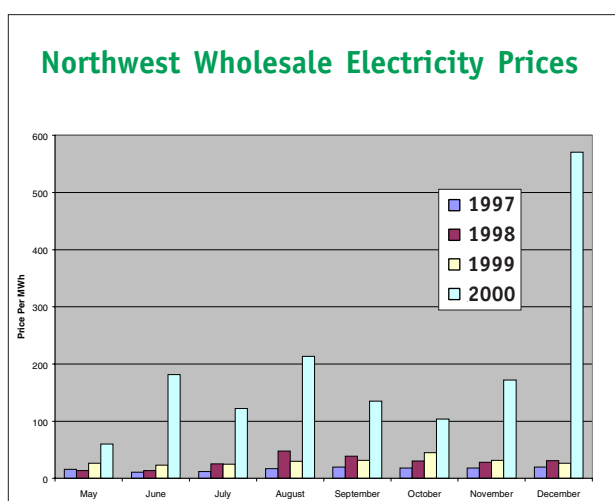


Alton M. Cook, a WWI veteran discusses the opening of the Brookings VA Clinic with Rep. DeFazio last summer.

Energy Deregulation—The Big Lie

After successfully pushing forward the deregulation of the natural gas, airline, cable and telecommunications industries, the pundits on Wall Street turned their sights to the big prize—the \$250 billion annual market for electricity. They ignored the fact that the regulated U.S. system already provided the most reliable and inexpensive system of electrical generation and distribution among leading industrial countries. They also conveniently forgot that the U.S. had already experimented with deregulated electricity and turned to regulation after the spectacular abuses and collapse of the Insull energy conglomerate in 1932.

In 1992, Congress passed and former President George Bush signed legislation mandating deregulation of wholesale electricity and allowing states to deregulate retail electricity. The proponents promised market efficiencies that would lead to lower costs for consumers and more reliable service. I predicted the opposite—higher prices and less reliable service.



Source: Bonneville Power Administration

The first warning signals of problems with deregulation came with wholesale price spikes 100 times the normal rate, during a Midwest heat wave in 1997. Then California had price spikes up to 50 times normal and rolling blackouts this past winter. Deregulation apologists have a host of excuses for the California problems that are spreading north to Oregon: it is the fault of environmental laws, huge demand increases, or a refusal to allow new generation. One by one, expert analysts and California's utility executives have refuted these myths. Now, deregulation advocates say it is because California only partially deregulated - that is partially true. But the model for full deregulation, Great Britain, has been plagued by price spikes, consumer gouging, service complaints and reliability problems as well. Even the British government has had to partially re-regulate to stem market manipulation and other abuses.

Electricity is a unique commodity, essential to our daily lives and our economy. Unlike other commodities, electricity can't be stored. So, a balance of supply and demand doesn't guarantee price stability and reliability. We need at least 15% excess capacity (standby generation) to assure reliability. In a deregulated market we will never have the standby capacity we need,

because it would bring down the price of electricity. **In a deregulated market a utility no longer has a duty to serve ratepayers,** its only duty is to maximize profits for stockholders. Expensive investments to provide reliability don't pencil out in turbulent deregulated markets. In contrast, regulated utilities are required to provide capacity and reliability.

In California, a few big multinational companies based in Houston and the East bought much of the generation following deregulation. When the lights went out in California last winter, demand wasn't especially high, but a third of their generation was offline for unexplained reasons. The California Independent System Operator (ISO) just filed a complaint with the Federal Energy Regulatory Commission (FERC) **alleging market manipulation and \$5.5 billion in overcharges by energy companies.**

In December, FERC found wholesale energy prices to be unjust and unreasonable, but under new leadership appointed by President Bush, they have refused to intervene. Vice President Cheney told the Congressional Northwest Energy Caucus, which I co-chair, that the Administration would not intervene or investigate for market manipulation. That is not acceptable.

At the beginning of this Congress, I introduced legislation (HR 264) to re-regulate electricity. In the meantime, in order to force the Administration to act, I've introduced legislation with other Members of Congress from the West to order the FERC to set temporary rate caps and investigate market manipulation. I'm also looking at litigation to force FERC to do its duty.



Rep. Defazio in front of a Bonneville Power Administration substation in Albany. He was one of 60 in Congress to oppose energy deregulation.

You can help lower electricity rates

With the drought and the sky-high price of power, every kilowatt that each of us conserves will not only lower our personal bills but will help hold down BPA's rate increase. Please contact your local utility for a home or business energy audit, energy saving tips, and information on tax credits and loans for energy conservation. The web sites listed below also provide useful information about conservation measures and programs.

- The Oregon Office of Energy [www.energy.state.or.us]—energy conservation tips and information on energy tax credits and loans
- Bonneville Power Administration [www.bpa.gov]—information on the agency and rate increases.
- Home Energy Saver [www.HomeEnergySaver.lbl.gov]—customized advice on how to make your home more energy efficient.

HERE IS A COLD, HARD FACT—If you bought electricity for your home or business in the wholesale market for the year ahead, you would see a 1,000% increase in your bill.

BPA's Rate Increase

The Bonneville Power Administration (BPA) has been a reliable, low cost provider of nearly one-half of the electricity in the Pacific Northwest. Unfortunately, a combination of drought, sky-high wholesale prices driven by California's failed deregulation experiment, and contract commitments exceeding its supply, is **threatening to raise BPA's rates by 50 to 250 percent next winter.** About one-half of that increase will be passed on to retail ratepayers.

I can't do anything about the drought, but I'm working to bring down wholesale prices (see deregulation story) and pressuring BPA to cut its costs and **end special deals for the aluminum companies that would drive our rates even higher.**

Under their current BPA contracts, the aluminum companies are allowed to resell their inexpensive BPA power for profit. Kaiser Aluminum shut down its plant and **made \$426 million reselling its electricity in the last 6 months.** That is outrageous. Other businesses and residential ratepayers shouldn't be forced to pay higher rates to profit a handful of big companies. I am organizing other Members of Congress to help fight an extension of this special deal after the current aluminum contracts expire in October.

Besides blocking special deals and fighting for wholesale price caps and reregulation of electricity, there is something we can all do to help keep down the rates—conserve. (See the box above for information about conservation.)

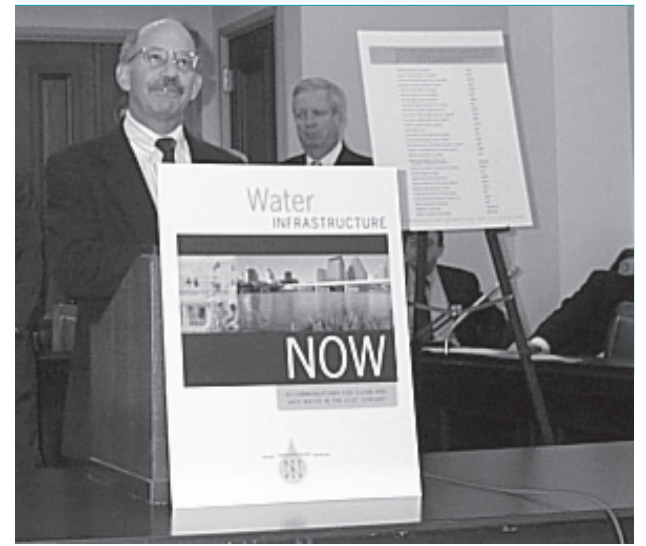
Fixing our Failing Water Infrastructure

It's irresponsible for the Administration to tout huge surpluses and push for big tax cuts before the country's infrastructure needs are addressed. The American Society of Civil Engineers recently gave U.S. infrastructure an overall grade of "D+," and estimated that it would take \$1.3 trillion over five years to begin fixing the country's aging infrastructure.

Two recently approved pieces of legislation will begin to address the infrastructure deficit in this country. One bill, the 1998 highway bill, "TEA-21," increased funding for the improvement of roads, bridges, and alternative transportation. Another bill, "AIR-21," an airport funding bill, dedicated funds to improving and expanding the nation's congested airport infrastructure.

Now it's time to address our communities' crumbling water infrastructure. From my new leadership position on the Water Resources and Environment Subcommittee, I am developing legislation, with a large bipartisan group of my colleagues, to improve drinking water systems and upgrade sewer systems across the country.

Mayors in Oregon have said they can't upgrade their water systems without increasing water bills by 50-100 percent. The City of Albany has water pipes that are over 100 years old and in dire need of replacement. Until the City acquires the \$15 million to fix the pipes, they lose 30-37 percent of their treated drinking water daily. The government should be a partner with our communities in providing safe drinking water and improved sewer



Rep. DeFazio announces proposal to address \$34 billion shortfall in water infrastructure needs.

Saving Social Security

According to the 2001 Social Security Trustee's Report, **Social Security is financially sound until 2038.** After that date, revenues generated by payroll taxes - called the Federal Insurance Contribution Act (FICA) taxes - will cover only about 75 percent of payments to retirees. My proposal to prevent this shortfall in funding would:

- Cut taxes for nearly 95 percent of working Americans by exempting the first \$4,000 of income from Social Security payroll taxes,
- Subject earnings over \$80,200 to the same FICA tax paid by lower income workers.
- Provide additional Social Security Benefits for individuals over age 85.
- Protect parents who stay home to raise children for up to five years for purposes of calculating Social Security benefits.

For more than a decade I have also supported making Social Security a truly independent agency and allowing the Social Security Trustees to gradually begin diversifying a part of the trust fund surplus into prudent private investments.

Mending Medicare

Many seniors in my district have friends in other states who receive substantially better Medicare reimbursement rates than we do in Oregon. Health care providers in Oregon and other smaller states have long suffered from lower Medicare reimbursement rates, compared to their counterparts in larger states and urban areas.

My colleagues and I on the Rural Health Care Coalition were successful last year in implementing a **15 percent increase in Medicare reimbursement rates** for rural health care providers. The increase will improve services for beneficiaries and allow managed care to maintain doctors in rural areas. Be assured that I will continue to fight for better HMO care and Medicare reimbursement rates in Oregon.

Preparing for Future Flu Crises

In an average flu season, influenza contributes to as many as 20,000 deaths and 114,000 hospitalizations in the U.S. If last winter's flu season had been worse, many seniors and other high risk individuals could have died.

Last winter, pharmaceutical companies insisted on filling their most profitable contracts first, while pregnant women, children, senior citizens, and other high risk individuals were forced to stand in line for vaccines, and were often turned away. **We need a system in place to guarantee that high risk individuals receive flu vaccinations first,** in the case of a flu vaccine shortage, or crisis.

I introduced legislation to strengthen the authority of the Secretary of Health and Human Services to respond to a health emergency. Under my bill, manufacturers and distributors would first have to provide available vaccine to high risk individuals. Under a national emergency, the Secretary, would be able to take control and distribute vaccine supplies that have been paid for by federal, state, and local government entities.

In future years, if a flu crisis looms, my bill would prevent vaccine distributors from capitalizing on a shortage or emergency, and safely assure that high risk individuals are treated first.

Rx Drugs

Skyrocketing prescription drug prices are the biggest factor in increasing health care costs. Prices are rising two to three times the rate of inflation, while pharmaceutical companies turn huge profits at our expense. Our country's senior citizens are the hardest hit by the exorbitant price of prescription drugs, but **all Americans need relief from overpriced pharmaceuticals.**

My alternative is a *real* prescription drug benefit that seniors can afford and all Americans can benefit from. Like HMO's and some insurance

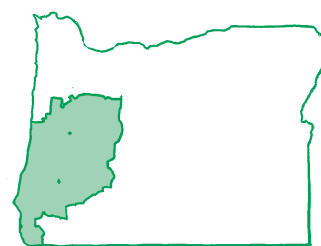
companies, my plan would use the buying power of Medicare to negotiate the "best price" for pharmaceuticals and substantially reduce prescription drug costs for Medicare recipients.

The plan would also allow prescription drug distributors and pharmacies to purchase FDA-approved prescription drugs from countries where the price is substantially lower than in the U.S. This would lower the cost of pharmaceuticals for everyone by 30-50 percent. Finally, my plan would require pharmaceutical companies to offer prescription drugs that have been researched and developed by the taxpayers, at a fair and reasonable price.

Congressman Peter DeFazio wants to hear from you

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