TREASURY DEPARTMENT FISCAL YEAR 2003 BUDGET

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BEFORE THE

COMMITTEE ON THE BUDGET
HOUSE OF REPRESENTATIVES

ONE HUNDRED SEVENTH CONGRESS

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TREASURY DEPARTMENT FISCAL YEAR 2003 BUDGET

WEDNESDAY, FEBRUARY 6, 2002

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

The committee met, pursuant to call, at 10 a.m. in room 210, Cannon House Office Building, Hon. Jim Nussle (chairman of the committee) presiding.

Members present: Representatives Nussle, Spratt, Sununu, Gutknecht, Miller, Davis, Clayton, Price, Clement, Moore, Capuano, Putnam, and Hastings.

Chairman NUSSLE. The Budget Committee will come to order. Good morning. This hearing is intended to examine the President's budget for fiscal year 2003 with respect to the Department of Treasury. Areas of particular emphasis will include the following: the need for economic security and a plan to achieve that, emphasizing tax relief and support for emerging economic recovery; the importance of other tax incentives proposed by the President providing assistance with regard to education, health coverage, the environment and other areas; and the Department's role in enhancing homeland security.

Testifying this morning is the Honorable Paul O'Neill, Secretary of the Treasury. He's been before us before. We welcome the Secretary back to the Budget Committee.

Before we begin, let me just comment briefly on the evening's activities. It appears that as we read in the newspaper today that at least Senator Daschle believes that the economic stimulus bill is not going to pass. Based on what we've been hearing, it appears that there is much less concern in the Senate for this project than there has been in the House as we moved through the fall. And there are those who are already celebrating and dancing on the grave of economic stimulus.

Let me just warn, or suggest, to those who would dance on the grave of economic stimulus that you're forgetting—and there are two kinds that might be dancing, there might be those who don't believe that stimulating the economy is important. And there are also those, I hear, that believe that if we don't pass an economic stimulus plan somehow we'll get back to balance that much faster, maybe even today or tomorrow.

Let me report to both sides of that equation that they're missing the whole point of what's important. It has nothing to do—as far as I'm concerned—with the budget in Washington as much as it has to do with the budget that people have to balance around their kitchen tables. We know many of them, they've been coming to our meetings. Our friends here at the Budget Committee talked about many of them yesterday. Mr. Capuano spoke probably as passionately as anyone yesterday about some of the folks that are out of work and are having to deal with that.

Now, you may have a different idea of what stimulating the economy and dealing with the people that are out of work right now need. But I will tell you, it has much less to do with what's important in Washington as it does to what's important around people's kitchen tables as they're balancing their checkbooks. Part of the reason that the President put this into the plan, part of the reason that the House passed two versions of economic stimulus and stood ready to pass probably two or three more is that we felt it was important to continue to promote economic security as part of the equation to get our economy and get our country back on its feet.

Yes, we might be in somebody's definition of a recovery. But that recovery may not come as fast, may not grow as fast, may not last as long as we need it to, unless we continue to give it the kind of the kick in the pants or the shot in the arm that it needs. So, I would hope that we continue to discuss and debate and keep as a priority the economic security of this country. It's not just about cutting taxes. It's about making sure that there's job training available for people who are out of work, making sure there are health care benefits as they make that transition, and making sure that unemployment benefits are there as well.

There are also some tax stimulus measures that were specifically for the victims of September 11, going directly to New York. It will be very interesting to see, as these votes transpire in the Senate, if actions are part of the rhetoric that we've been hearing over the last number of weeks and months as people have been so concerned about those in New York and those who have been victims as a result of September 11.

Not everybody got what they wanted in an economic stimulus plan, this is still a legislative body. We have to work out compromises and details. But if we can't even get it to conference to do so, it makes it impossible to achieve that negotiation and work in the benefit of the American people.

So unfortunately today, we have the Secretary of the Treasury come within that context to talk a little bit about the security of the country with the news hanging over our heads that the Senate may decide to punt this issue. But I think it's no less important to talk about maybe, not only stimulating the economy and growing the economy and creating jobs, but also maybe some alternative ideas on how to do so, if in fact economic stimulus is dead in the Senate.

So with that, I'll turn it over to my friend, John Spratt.

Mr. SPRATT. Let me assure you, Mr. Chairman, that if you want to extend unemployment benefits, every Democrat in the House of Representatives will vote for that. Thirteen weeks, 26 weeks, you put it on the floor, give us a clean up or down vote on that, we'll vote for it overwhelmingly. If you want to do what we also proposed, and that is, help those who are unemployed continue their COBRA rights, exercise their COBRA rights, and continue their health insurance coverage, we'll vote for that in a skinny minute, let me assure you.

What we question is whether or not you should load onto this bill provisions like a repeal, retroactively, of the corporate AMT, whether you should load onto this bill a provision that would shelter the income of financial holding companies when it's earned abroad. That may be good tax policy, but it belongs in a different bill in a different place. It ought to be subject to the pay-go rule, among other things.

In any event, we are ready to pass what the essentials of a stimulus package would be when it comes to dealing with the recession at hand. I am a little curious, as I go through the budget, looking at those things that are already passed, already in law, which constitute what we've traditionally called the safety net.

For example, as I understand this budget, it calls for a cut in the employer's share of the unemployment insurance benefit, so that the States would assume more responsibility for the administration of unemployment insurance plans and for the extended benefits. That portion out of which we pay for extended benefits, the tax, the fractional tax levied for that purpose, would be repealed as called for in this budget. I don't understand how that comports with a recovery package.

This budget would say to the decline in the Transportation Trust fund, the best way and place to pump money all over the country for infrastructure investment and counter-cyclical economics is public works like that. It would say, take your lumps, we're going to cut the State highway departments by $9 billion because the Trust Fund is down that amount, the Corps of Engineers, $300 billion.

This is a program in place that would be usable and useful for stimulating the economy. We are actually proposing to cut back on that. Freeze child care, cut LIHEAP, other things that are part of the safety net. So I don't get it. If you're for it, why all these provisions in this budget, and why don't you give us a cleaner up or down vote?

Mr. Secretary, welcome. We look forward to your testimony. We are deeply concerned about the state of the budget. I've been here for nearly 20 years. I spent a large part of my effort to try to turn this big battleship around that we call the Federal budget, get it out of the red ink into the black. We thought we were headed out to a lot more comfortable seas than we find ourselves right now.

The question is, what's the plan? How do we get back on the course we were on where we were talking realistically about national savings, about paying down debt and about getting rid of some of the debt that we've accumulated over these many years. Can we get back there? If so, how do we do it? What in this budget will put us back on that path?

Thank you for coming. Thank you for your time. We look forward to your questions and answers.

Chairman NUSSLE. Without objection, all members will have the additional time to submit opening statements for the record, if they care to do so at this point. With that, welcome, Mr. Secretary, back to the Budget Committee. We are pleased to receive your testimony.

STATEMENT OF HON. PAUL O'NEILL, SECRETARY, U.S. DEPARTMENT OF THE TREASURY

Secretary O'NEILL. Thank you for inviting me to be here today, Mr. Chairman, Congressman Spratt, distinguished members of the committee.

If it's all right with the Chair, I would like to read a very short statement that's maybe 7 or 8 minutes, if that's OK, to set the scene for our conversation this morning.

Chairman NUSSLE. Please.

Secretary O'NEILL. We've had a year to work together, and you all know that I'm an optimist about the U.S. economy. I believe our economy is distinguished in the world in its leadership demonstrating productivity and creating a level of prosperity that's unexampled anyplace else in the world. Interesting enough, this morning the report was presented showing that in the fourth quarter of 2001, our productivity grew at a rate of 3½ percent, which is an unexampled experience. This is three quarters in a row, even during a very slow recessionary period, where the U.S. economy has demonstrated that we can, in our private sector, achieve remarkable levels of productivity under the most difficult of circumstances.

I believe we were on the verge of recovery before the September 11 terrorist attacks, and that our resilience and determination have brought us back to the early stages of recovery today. We see more and more signs every day indicating that the seeds for recovery are there, and only need nourishing to speed the process of putting Americans back to work. I believe we will return to prosperous economic growth rates of 3 to 3½ percent as soon as the fourth quarter of this year, especially if we're able to pass still-needed economic security legislation to hasten and strengthen our recovery.

As the Senate struggles with this today, I hope they keep in mind that we need to do two things for displaced workers. We need to provide assistance to them now, and as importantly, we need to boost job creation to speed their return to work. Strengthening our economy is a key goal of the President's budget. A return to our normal growth rates means jobs for the 1.4 million Americans who have lost jobs during this recession.

Just as a strengthening economy means greater prosperity for our Nation's people, it also means greater strength for our government. It means greater revenues going into the Treasury without raising taxes, giving us resources to address the Nation's needs and the retirement of even more Federal debt, leading to long term economic security for our children. Even with all that must be done to enhance our security, we expect that a return to economic growth will bring us back to government surplus in the year 2005.

The economic slow-down began in mid-2000, when GDP and job growth slowed sharply. Business capital spending began to plummet in late 2000, and accelerated its decline in 2001, dragging down the economy. In August, we were beginning to see the evidence of an economic turnaround.

I firmly believe, and I think the data shows this, that had it not been for the terrorist attacks of September 11, we would have seen an end to the economic downturn and would perhaps have avoided a recession. The September 11 attacks created shock waves that rippled throughout all sectors of the economy. Financial markets were shut down for almost a week. Air transportation came to a standstill. As a result, GDP fell 1.3 percent at an annual rate in the third quarter.

By late November, the National Bureau of Economic Research declared that the United States was in a recession. They designated the end of the previous expansion to be March 2001, but they observed that the slow-down might not have met their qualitative standards for a recession without the sharp declines in activity that followed the terrorist attacks.

In sum, the score card for the economy in 2001 reflected a combination of adverse events. The private sector lost more than 1.5 million jobs. The unemployment rate rose 1.8 percentage points. Industrial production was off nearly 6 percent during the year. And at the end of the year, industry was using a little bit less than 75 percent of its productive capacity.

As bad as these numbers are, they could have been worse. Your and our well timed bipartisan tax relief package put $36 billion directly into consumers' hands in the late summer, in fact, beginning on July 23 and through the early fall, providing much needed support as the economy sagged. It was the right thing to do at just the right time.

It's not surprising that both the Congressional Budget Office and the Office of Management and Budget project deficits for this year and next, as a result of the economic slow-down and the response to the September 11 attacks. The President has presented a budget to speed our recovery. First, the budget includes tax relief to stimulate job creation. The President proposed accelerated depreciation, speeding up the reduction in the 27 percent income tax rate, reduction of the corporate AMT as passed by the House in December, and checks to those who didn't benefit from last summer's tax rebates.

These are all things that enjoy bipartisan support in both houses of Congress. And we remain eager to work with Members of Congress to complete work on such a package to create jobs and assist dislocated workers with extended unemployment insurance benefits, and temporary assistance for health care.

Second, the President's budget proposes strict fiscal discipline increasing spending for national security and homeland defense and holding the line on other spending. His management agenda calls for performance measures to be used to determine where budget increases are allocated so that our resources go into projects and programs that make the biggest difference in people's lives.

As the experience of the 1990's shows, this discipline is crucial to ensuring we do not return to systemic deficits of the past. But fiscal discipline alone will not guarantee budget surpluses. We must return to 3 to 3½ percent annual growth to insure surpluses in the years ahead. The focus, as the Chairman said, must be on restoring growth. Surpluses will then follow naturally. Raising taxes would stifle the process of getting Americans back to work. This is a bad idea, as our recovery is struggling to take hold.

According to 1999 data, the most recent available, 33 million small business owners and entrepreneurs pay taxes under the individual income tax rate system. They've made business plans that assume the tax relief enacted last summer will take place as scheduled. Eighty percent of the benefit of cutting the top two rates goes to these small business owners and entrepreneurs. These are the engines of job creation in our economy. Tax relief should be accelerated as the President has proposed, to boost job creation. Such relief will have minimal or no effect on long term interest rates. According to a recent analysis by the Council of Economic Advisors, a $1 trillion change in the public debt over 10 years would tend to raise the long term interest rate by 14 basis points. Since the tax cut last year, the 10-year nominal rate has averaged 4.93 percent, a little off of that this morning, which is substantially below the 6.16-percent average from 1993 through the year 2000.

Again, restoring growth is the key to America's future. Restoring growth will ensure we have the resources in Washington to fight the war on terrorism, to provide for homeland defense and provide the service that the American people want and need and demand. The President's budget will help to ensure that both peace and prosperity are restored to the American people as soon as possible.

That's the completion of my statement, Mr. Chairman.

[The prepared statement of Secretary O'Neill follows:]

PREPARED STATEMENT OF HON. PAUL O'NEILL, SECRETARY, U.S. DEPARTMENT OF THE TREASURY

Good morning Chairman Nussle, Congressman Spratt and members of the committee. Thank you for inviting me to testify today. Now that we've had a year to work together, you should know that I am an optimist about the US economy. I believe we always have untapped potential that can be unleashed to spread prosperity throughout the Nation. Never has that been more true than right now. Even after a difficult year, my optimism about the fundamentals of the US economy has not changed. I believe we were on the verge of recovery before the September 11 terrorist attacks, and that our resilience and determination have brought us back to the early stages of recovery today. We see more and more signs every day indicating that the seeds for a recovery are there, and only need nourishing to speed the process of putting Americans back to work. I believe we will return to prosperous economic growth rates of 3 to 3½ percent, as soon as the fourth quarter of this year, especially if we are able to pass still-needed economic security legislation to hasten and strengthen our recovery.

Strengthening our economy must be our primary goal. It is the focus of the President's budget. That must be our goal, because a return to our normal growth rates means jobs for the 1.4 million Americans who have lost jobs during this recession. Just as a strengthening economy means greater prosperity for our Nation's people, it also means greater strength for our government. It means greater revenues going into the Treasury, without raising taxes, giving us resources to address the Nation's needs, and the retirement of even more Federal debt—leading to long-term economic security for our children. Even with all that must be done to enhance our security, we expect that a return to economic growth will bring us back to government surplus in 2005.

The economy's slowdown began in mid-2000, when GDP and job-growth slowed sharply. Business capital spending began to plummet in late 2000, and accelerated its decline in 2001, dragging down the economy. In August we were beginning to see the evidence of an economic rebound. I firmly believe that had it not been for the terrorist attacks of September 11, that we would have seen an end to the economic downturn and would perhaps have avoided a recession. The September 11 attacks created shockwaves that rippled throughout all sectors of the economy. Financial markets were shut down for almost a week. Air transportation came to a standstill. As a result, GDP fell 1.3 percent at an annual rate in the third quarter.

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In sum, the scorecard for the economy in 2001 reflected a combination of adverse events:

- The private sector lost more than 1.5 million jobs.
- The unemployment rate rose 1.8 percentage points.
- Industrial production was off nearly 6 percent during the year.
- Industry was using less than 75 percent of its capacity.

As bad as these numbers are, they could have been worse. Our well-timed bipartisan tax relief package put $36 billion directly into consumers' hands in the late summer and early fall, providing much needed support as the economy sagged. It was the right thing to do, at just the right time.

It's not surprising then that both the Congressional Budget Office and the Office of Management and Budget project deficits for this year and next as a result of the economic slowdown and the response to the September 11 attacks. Last April's budget forecast a fiscal 2002 surplus of $283 billion. The Mid-Session review figures, released in August, took account of the impact of the President's tax relief package and projected a $195 billion surplus in fiscal 2002. The new budget forecasts a fiscal 2002 deficit of $9 billion, assuming no policy action to stimulate the economy. The reduced surplus estimates are the result of the economic downturn and the response to the September 11 attacks. CBO's projections confirm that tax relief played a minor role in the surplus decline in the next few years—accounting for less than 12 percent of the decline in 2002 and less than 28 percent in 2003.

FY 02 Surplus

	In billions
April 2002 budget baseline	$283
Changes from:	
weaker economy/technical changes	197
enacted spending	54
tax relief	40
February 2003 budget baseline	9

The CBO budget projects a 10-year surplus of $1.6 trillion. Last August, after factoring in the tax relief package, the CBO projected a $3.4 trillion surplus for the next 10 years. The recession and the war on terrorism depleted the 10-year projections by $1.8 trillion. The lesson from these numbers is simple—10-year projections are a useful discipline but they do not predict the future. None of last year's 10-year estimates foresaw the events of September 11 or a negative $660 billion worth of "technical changes" that are now included in the new 10-year estimates by agreement among the technical experts. We do know about the here and now, and we should deal with the here and now, reigniting growth to restore long-term surpluses.

The administration's growth projections are similar to the consensus of private forecasts. Over 90 percent of the Blue Chip Economic Indicators panel members say the recession will end before April of this year. We share that assessment. Personally, I am optimistic that the economy will do even better than our budget assumptions suggest. For the near term, we expect the economy to grow 2.7 percent during the four quarters of 2002. That projection includes the foreseeable effects on the economy of the President's economic security package.

The lesson is clear. A strong economy is crucial to restoring budget surpluses. Some would suggest that we need surpluses to improve our economy. They have the logic backwards. Growth creates surpluses, not the other way around.

The Federal budget was in deficit every year from 1970 through 1998. From 1970 through the early 1990's, government spending growth exceeded government revenue growth by ¾ of a percentage point a year, on average. Fiscal discipline was imposed by the historic Omnibus Budget Reconciliation Act, signed in 1990 by President Bush. With fiscal restraint made an integral part of the budget process, once the economy took off in the 1990's, revenue growth was double the pace of spending growth. It was the rapid economic growth of the 1990's that generated the burgeoning budget surpluses, which appeared even as Federal outlays grew about 3.5 percent a year from 1993 through 2000.

Today the economy is recovering. The tax cut of last May helped to keep the economic downturn shallow and it will continue to help. Energy prices have retreated. The Federal Reserve has reduced short-term interest rates 11 times since the beginning of 2001. Measures of consumer confidence are bouncing back. The index of leading indicators increased sharply in December for the third straight gain. Motor vehicle sales have remained strong, and initial filings for unemployment benefits are in decline. But we all know that unemployment itself is a lagging indicator. Although the current trend is positive, too many people will remain out of work. And given the choice, they'd rather have a regular paycheck than an unemployment check.

The President has presented a budget to speed our recovery. First, the budget includes tax relief to stimulate job creation as a crucial tool to speed our recovery and put Americans back to work. The President's proposals—accelerated depreciation, speeding up the reduction in the 27 percent income tax rate, reducing the corporate AMT, and checks to those who didn't benefit from last summer's tax rebates—enjoy bipartisan support in both houses of Congress. I'm eager to work with all of you to complete work on a package to create jobs and assist dislocated workers with extended unemployment benefits and temporary assistance with health care.

Second, the President's budget proposes strict fiscal discipline—increasing spending for national security and homeland defense, and holding the line on other spending. His management agenda calls for performance measures to be used to determine where budget increases are allocated—so that our resources go into the projects and programs that make the biggest difference in people's lives. As the experience of the 1990's shows, this discipline in crucial to ensuring we do not return to systemic deficits of the past. But fiscal discipline alone will not guarantee budget surpluses. We must return to 3 to 3.5 percent annual growth to ensure surpluses for years to come.

The focus must be on restoring growth. Surpluses will then follow naturally. Raising taxes would stifle the process of getting Americans back to work. This is a bad idea, as our recovery is struggling to take hold. According to 1999 data, the most recent available, 33 million small business owners and entrepreneurs pay taxes under the individual income tax rates. They have made business plans that assume that the tax relief enacted last summer will take place as scheduled. Eighty percent of the benefit of cutting the top two rates goes to small business owners and entrepreneurs. These are the engines of job creation in our economy.

Tax relief should be accelerated, as the President has proposed to boost job creation. Such relief will have minimal, or no, effect on long-term interest rates. According to a recent analysis by the CEA, an expected $1 trillion change in the public debt over 10 years would tend to raise the long-term interest rate by 14 basis points. Since the tax cut last year, the 10-year nominal rate has averaged 4.93 percent, which is substantially below the 6.16-percent averaged from 1993 through 2000.

Restoring growth is the key to America's future. Restoring growth is the key to ensuring we have the resources in Washington to fight the war on terrorism, provide for homeland defense and provide the services the American people demand. The President's budget will help to ensure that both peace and prosperity are restored to the American people as soon as possible.

Chairman NUSSLE. Thank you, Mr. Secretary.

Based on what you've told us this morning—and I was also pleased to hear your testimony yesterday at the Ways and Means Committee—let me just cut to the chase based on what I've heard in the news over the last 24 hours as what's transpiring in the Senate or what may not be transpiring in the Senate. Do we still need an economic stimulus bill? Do we still need a plan to stimulate the economy? And if so, what form should that take?

Secretary O'NEILL. The President has proposed in his budget, after careful consideration, that we go forward with a stimulus plan, with a total of something in the $70 billion to $80 billion range. And he's said repeatedly it should include assistance for individuals, that it should include money to induce businesses to keep the jobs that they do have and to expand beyond the ones that they do have, to directly deal with a question that was suggested earlier of expanding coverage of unemployment insurance and health care costs of people who have been dislocated by the events of September 11.

We have been clear, the President's been consistent. On October 5 he put down specifically what he thought should be in the stimulus bill. Two bills were passed by the House, the one in December included the work of the bipartisan coalition in the Senate. We believe there are a majority of members of the Senate who would vote for this bill if it could get to the floor. From last night's news accounts, it appears it's not going to be permitted to come to the floor for consideration.

Chairman NUSSLE. I've heard you describe the economic stimulus principles that the President laid out in four different parts. Could you break those into the four component parts and tell us what the stimulating effectwould be of each one? If for instance we are now at a point where we're going to begin to negotiate this on the floor and pass individual bills, as Mr. Spratt suggested, that there are certain bills that maybe the Democrats want and there are certain bills that the Republicans want and let's just put them on the floor and let them stand on their own.

Let's talk about stimulating the economy. You want to stimulate the economy. What is the stimulative effect of extending unemployment benefits versus creating jobs, as an example?

Secretary O'NEILL. Let me go to the strongest component of the economic stimulus that was considered in the House, and as well by the bipartisan coalition in the Senate. The accelerated depreciation provisions that were considered in their broadest measure would do this. They would give additional free cash flow to every business. As I said in my prepared remarks, most of the businesses in the United States are small businesses, they're not large businesses. Every business would benefit by being able to accelerate depreciation.

To share with you a story from meetings last summer, after you all passed the tax reform bill, I had and have continuous meetings with people from throughout the economy as a way of understanding better what it feels like to be out there on the front lines of creating economic income and wealth. There was one meeting where there was a florist present who talked about the effect of the tax reductions for him, because as I said in my testimony, most of these small businesses file under the individual income tax rate. He said, well, you know, while it's probably not meaningful to all of you here, the effect of the change that you made in my tax rates are going to permit me to hire one additional person.

And I think it's such a telling story, because that's where the jobs in America come from, from the florists, from the corner grocery store, from the shoe maker. We read and we marvel at the numbers of corporations like the ones I've headed in the past with their tens of thousands of employees. It's not to say that they're not important. But the real life blood of America's economic strength are those individual jobs in the florist shop.

So, the accelerated depreciation would free up cash flow for every single one of those people. Some would use it to protect jobs they already have, some see an additional demand would create additional jobs. It's the strongest single component.

The second important component from a stimulus point of view is accelerating the rate reductions. Why is it important? Because it has the effect, even though the amounts may seem to be small, of changing the perception of individuals and families about what kinds of investments they can make themselves going forward.

For example, if you're 30 years old or 35 years old and you're looking at the prosect of buying your first house, and you see that you're going to have, because of a tax rate reduction acceleration, you're going to have an extra $20 or $30 a month, if you think about that it may not seem like much to you, a few hamburgers at the corner stand. But $20, let's say $30 a month on an annual rate basis means the difference in the size of mortgage you can cover by maybe $4,000 or $5,000. So, it means a difference of whether you're going to have an extra bedroom for your second child or not. It's that translation of accelerating the rates that makes a difference from the point of view of what we might expect in economic performance.

Now, directly to your question of extending unemployment insurance, because it's really providing more money to people who otherwise wouldn't have it, it doesn't have the same kind of stimulative effect, but there's a good reason to do it, which is, if you're out there, and because of the slowness in our economy, you've now run out of your 26 weeks worth of benefits, and the average duration of unemployment periods has gone up, it's a compassionate thing to do.

From the very beginning of this, the President has said, I care about those people out there who have been impacted by the slowness of the economy, by the events of September 11. The President has said, again, since October 5, please do something about this. Here are the right ideas. The House has acted twice, we've simply not been able to get a bill in front of the whole Senate, because the leaderships have not been able to do that.

Chairman NUSSLE. I agree with your assessment, this is a package deal. It's not one or the other. Both are needed in order to accomplish the ends that we want to accomplish here in the short term, and I appreciate your testimony on that.

Mr. Spratt.

Mr. SPRATT. Mr. Secretary, when you came here last year, did you have any intimation in projecting a surplus of $5.6 trillion that you might be sitting on a surplus of $600 billion this year, that you'd see $5 trillion of it vanish over a period of 12 months?

Secretary O'NEILL. Let me say, my sense of where we are today is we're still looking at this 10 year period of having a $1.6 trillion surplus, compared to the $5.6 trillion we had last year. But indeed, when I was here last year and testifying before various committees of Congress, I warned that 10 year numbers were a useful exercise, but one shouldn't think they predict anything. I think there's no one in this room who would say they anticipated and predicted the terrorist attacks of September 11. They've had a profound impact on the potential surplus going forward.

Now, I believe that our economy is so strong and so good that we will figure out a way over time to both better protect ourselves against the prospect of terrorist attacks and it won't end up hurting our productivity, which is another way of saying, I think we are so good, we will figure out a way to be better protected and we will at the same time improve our productivity.

I've spent a lot of time thinking about this, because as you know, the Customs Service is part of my brief. One of the challenges we have is to figure out how to do an ever better job of looking at and examining individuals and goods coming across our borders. If one just extended the practices of the past in the wake of September

11, it would cost us untold amounts of money in negative impact on our economy.

I believe, and I think we're beginning to demonstrate, with a combination of better ideas and technology, we can take all this in and our economy will be better off.

Mr. SPRATT. Let me agree with you about Customs. I've been a long-time supporter of Customs. I believe that you've got to have more people to crack more containers. Two percent of your cargo containers, just that, are opened up and inspected. We've given them other missions, such as drug enforcement, that have displaced them from their traditional missions. Put them back in their traditional missions, have reasonable fines, and they more than pay for themselves. I think the old revenue yield from a Customs agent was about $21 for every dollar we spent in salaries. Pretty good return. You would have liked to have seen that at Alcoa, I think, by hiring one additional worker, get 21 additional dollars of profit.

But now there's an additional reason to do it, and that is, they're part of the front line of our protection against terrorism. So I encourage you to pursue that.

In the meantime, as you say, I guess it's sort of improvisational, we've got a lot of different problems we didn't see, so now we've got to rethink the plan. I'm looking for the plan in the budget, and I don't quite discern a plan here. We heard it yesterday from Mitch McDaniel also, he was saying basically let's hope the economy is going to be more, grow better than we're anticipating here, because we're trying to be conservative about the projections. Is that basically what you're saying, if we can get the economy going fast, that events may be self-correcting?

Secretary O'NEILL. I think if anyone has any doubt, the only way the Federal Government gets any money is to take it away from the people. We believe that it doesn't make sense to raise taxes in a slow economic period. And we do believe, as I said in my opening statement, I have great optimism about the long run future of the U.S. economy. If we had the time, I'd tell you in some detail why I know that it's true that we are going to continue to lead the world in income generation, in job creation, and in wealth accumulation.

But I have no doubt that we will do well and that we will generate a very substantial amount of money. As a matter of fact, I think maybe we gave you along with the prepared remarks——

Mr. SPRATT. I want to come to that.

Secretary O'NEILL [continuing]. The revenue picture that we're looking at, with where we are right now, with the assumptions that we and CBO have joined in about where our economy is going. We're going to see a 55-percent increase in the revenue coming to the Federal Government over this next 10 year period, just as sure as anything.

Mr. SPRATT. The chart up on our screen right now is one way of saying how dramatically the path we were on has changed since last year. This is not a political chart, it's just fact of life that confronts us both. Last year the budget was projected to generate surpluses that would pay off debt. As a consequence, the biannual ritual of having to raise the debt limit seemed almost a ritual of the past. It was something in the far off future, like 2007.

Now we've got a statutory debt that is climbing at a much higher rate, that upper line there. And you're going to have to come back to us pretty soon. Can you tell us when, how much, what's going to be required in order to keep the debt subject to statutory limit and compliance with law over the next several years?

Secretary O'NEILL. Yes, I'd be happy to do that. I think for those who don't understand the nuances of how we do things in the Federal Government, it's important to recognize that the debt subject to statutory limit is driven to a very substantial degree by what are really credits to the Social Security Trust Fund. That's what's really driving these numbers along.

But more directly to your question, how soon do we need to do something about this, we need to do something about this in March. The sooner in March, the better. We've proposed in a letter that I sent to all the appropriate committees in December an increase of $750 billion in the statutory limit.

One of the things I've done in the last couple of months, since it became clear that we were going to have to talk about this issue, is to go back and review the history of what the Congress has done on this subject. All of you Members will appreciate that this is, I would argue, this whole thing is an anachronism. Whatever your inclinations may be, we don't have a choice. We do not have a choice.

But in the past, in spite of the fact we didn't have a choice, there have been some really unfortunate things done in order to postpone the inevitability of having to deal with the statutory debt limit. It is my fervent prayer to you that you not cause the American people to pay for with real money the costs of doing things to postpone dealing with this issue that we must deal with under the law of the land. We have no choice. I hope we won't add to the fact that we have no choice endless conversation and real financial costs as we get this thing done.

Mr. SPRATT. If I could have just a couple more minutes, Mr. Chairman.

Let me pick up where you were about the Social Security Trust Fund, and ask you—and let me make something clear. We aren't seeking to raise taxes in the middle of a recession. We don't want to do that, but we're looking at a 10-year time frame. And if these deficits continue accumulating and the on-budget deficits are serious throughout the 10-year time frame, a couple hundred billion dollars, it does beg the question, should we pay for the war on terrorism? Should we pay for these additional needs out of the Social Security Trust Fund?

Secretary O'NEILL. Well, let me say what I think is, we in Washington all know this. I worry that people out there in the land don't understand the nuances of all this. Every dollar that comes into the Federal Treasury as a consequence of Social Security and Medicare taxes is credited to the Social Security Trust Fund. So none of those dollars are used for anything except to in effect buy government securities that go into the Trust Fund.

Now, there is a difference, and we all know this. I think it is really an unfortunate thing on this important public policy issue for any of us to posture as though anyone in this town seriously intends not to deliver the promised benefits to Social Security recipients or Medicare recipients. If anyone believes that that's a real thing, I'll tell you, you could get all the time you want on all the talk shows in the world. Because you would be the only person advocating such a thing.

Mr. SPRATT. We had a plan in place that emerged on both sides of the aisle, in the White House and the Congress over the last 3 or 4 years, and that plan was to use those surpluses solely to redeem, buy up outstanding debt held by the public, which would have two effects. In the short run, it would add $3.6 trillion to the national savings. I would hope that would send a signal to the long markets in particular that you were talking about earlier, that with the total reduction of the debt held by the public, we were doing things differently. There would be capital formation, net national savings. Greenspan sat where you're sitting and said, I see this as the single most efficient way to increase the savings of this country.

So it would have done that, and at about the time the baby boomers run through everything else and only have payroll taxes to meet their benefits, it would have made Treasury, put Treasury in the position of having no outstanding debt to the public, when it had to borrow to meet those benefits. Don't you agree both of those were substantial, good policies that we were pursuing and need to get back to?

Secretary O'NEILL. I would like very much to rescind the recession and the terrorist attacks of September 11. That would be great. And that would put us back where we were a year ago. I don't know how to do either one of those things.

The President has said—looking at the totality of the American economy and our need to pursue the war on terrorism, our need to beef up homeland security—that he believes it's necessary at this time, given the unusual circumstances of a recession, the terrorist attacks and this national emergency, that it makes sense with this combination of circumstance to propose and implement the budget he has proposed.

There are only really two ways to get to a different fiscal situation than what the President has proposed. One is to raise taxes. We don't think that's a good idea. The other is to reduce the spending the President has proposed. As I observed in my testimony, the President has provided substantial increases to pursue the war on terrorism and substantial increases to deal with the needs of homeland security, and to follow on the commitments that were made and agreed last year.

For example, the budget for discretionary spending on education is going from $40 billion to $50 billion. Perhaps someone doesn't join the President in thinking that we should have that $10 billion year-to-year increase in education discretionary spending. And certainly it is a possibility for Members who want to pursue it to recommend reducing some of the items the President has proposed for spending in fiscal year 2003. The President's judgment, our judgment, is given the circumstance, this is the right blend of policies.

Mr. SPRATT. Two quick questions and I'll quit and turn it to others. In one of the highlights of the budget, OMB says the administration will seek to extend the pay-go rule and apparently the other budget rules that have been in place since 1990. Interestingly enough, you salute former President Bush for the budget summit agreement of 1990, and you see this as a turning point. I think you're correct in doing it. I would have said something about 1993 and 1997, too.

But nevertheless, we need a plan, and that was the beginning of a plan. It included tax increases, too, so you're a brave soul for introducing it, because not everybody on this side of the aisle necessarily thought it was a good idea at the time.

But if we do have an extension of the pay-go rules, would you expect those rules to apply to the tax cuts that are proposed in this budget request, some $600 billion in additional tax reduction? Do you think it should be applicable to that tax reduction request, so that those tax reductions would have to be offset, revenue neutral?

Secretary O'NEILL. I think making the tax cuts permanent is frankly something I think we should have done last year. We have lots of rules and lots of conventions, and I think it's really unfortunate that we acted as though last year when we get to the sunset date on the tax reductions that were enacted last year that we're going to raise the 10-percent rate on the lowest income taxpayers to 15 percent, basically a 50-percent increase in taxes, when we get to the expiration period for low income people.

I don't believe that was ever true—I don't believe it today, I didn't believe it a year ago. We have all these phony conventions that cause people to do things as though they were real. It's really very unfortunate. Does anybody really believe they're going to have an elimination of estate taxes that lasts for 9 months? It's an absurdity, some of the things that are done here. I don't sign up for them, I don't believe in them. I think we ought to face the reality of where we are.

Mr. SPRATT. But the question comes, will the pay-go rule apply to the additional $600 billion?

Secretary O'NEILL. We've included in our budget planning making permanent the tax cuts as the President said in the State of the Union. I think our numbers reflect an anticipation that we will see the reality of permanent status for the tax cuts.

Mr. SPRATT. Without offsets? So the pay-go rule won't apply?

Secretary O'NEILL. They're basically included in our expectation and forecast of where the economy will be. I guess the question is, let's deal specifically with estate taxes. Should we be proposing now that we cut some spending in the year 2011 in anticipation of making the estate tax permanent? I don't know how to do that.

Mr. SPRATT. One final question. Whatever else you say about the last 12 months, I think you have to acknowledge that we made some mammoth miscalculations, going from $5.6 trillion to $600 billion, $5 trillion in surplus has disappeared. And a large part of it's disappeared due to what we call vaguely and ambiguously economic and technical factors over which to some extent you preside, because a lot of those economic and technical factors apply to the revenue calculations of the government.

I don't have your particular table in the administration's book, but just looking through CBO, to give you the flavor of the adjustment, for example, this year, legislative tax cuts will take about $86 billion off the revenue projection. Economic reductions in revenue estimates will take $123 billion. Technical will take $62.8 billion.

As you go out over time, the economic and technical factors continue. And they are substantial until you get to the end of the chart there, almost as much as the tax cuts itself.

Now, obviously we've got a problem there. I know there are intervening factors. But there also here is a question of whether or not we've really got a good handle on our ability to project revenues. Are you concerned now, given revenues coming into the Treasury at this point in time, capital gains realizations and other tax takes, that the revenue chart you just showed me, 55-percent increase over the next 10 years, is a reliable chart?

Secretary O'NEILL. I'm comfortable with the first year. And as the years go by, I think as the CBO showed and demonstrated in its chart of uncertainty, the farther away you get from today, the less human beings are capable of truly predicting the future.

Having said that, I will say this to you. The reason why these conventions were established is because the Congress had fallen into a habit of the camel's nose under the tent, if you will, of establishing a small program with a little bit of money with every intent and purpose of turning it into a mountain over a longer term period. And those of us, this now includes me 25 years ago, who were concerned about what I would say is fiscal sanity, were really concerned about the difficulty of ever stopping anything once it starts in the Federal Government. So we said, we need to impose and have the discipline of projecting the long-term consequences.

I think projecting the long-term consequences of spending is something that we can better do than we can project the long-term revenue expectations. Because it's so tied, revenue projections are so tied up with year-to-year variations and what's going on in the real economy.

So I think we need the discipline of projecting these numbers, but I don't think we should confuse projection with prediction. These are two very substantially different things. We should use the numbers to inform ourselves, not to blast each other.

I must tell you, I think it is believable, and I think it demonstrates the point that you're making, $660 billion worth of technical corrections, not just from the Treasury staff, from the independent Congressional budget staff, deciding in a 12 month period, $660 billion evaporated. I think it goes right to the heart of the matter that it's not possible to know 10 years out with precision. It's possible to have a point of view, it's not possible to have a prediction that will hold water.

Mr. SPRATT. Does that mean, then, that moderate year-to-year tax reduction, seeing where you are, what you've got before you have mammoth tax reduction, is a better policy to take?

Secretary O'NEILL. Well, I think this. When I look at the tax situation, I'd observe, and again, we gave you a chart that I think is well worth everybody understanding. What this is is the tax take going back to 1945. What it shows is that the average Federal tax take since 1945 has been 18 percent. With the reform that you all enacted last year, over this period out to 2010, we're still looking at taking 19 percent of the people's money to do whatever we will do with it at the Federal level, which is a full percentage point more than the historical average going back to 1945.

So when I think about where we are in terms of balance between how the Nation uses its resources, at least on a historical basis, I would say we're above trend. And I would make this argument. That the more wealth and income we generate in this country, the less of it as a percentage that ought to come through the Federal Government.

Because as we do a better job of meeting common needs for the population, the common needs should not rise as fast as the rate of increase in income and wealth creation in the society at large. This says we're running against that trend, that even though we're going to go from a $10 trillion economy to a $20 trillion economy, we're going to insist on taking a bigger fraction of it here in Washington than we did from the period from 1945 until now.

Mr. SPRATT. I'll swap charts with you. You can take this one back with you, because it shows you how we got where we are and where we seem to be headed. We brought outlays as a perecentage of GDP down substantially from 22 to 23 percent of GDP in the early 1980's. We brought revenues up. They met in the middle and the difference between the revenue percentage of GDP and the outlay percentage is of course the surplus. That's the way we did it.

But we actually brought revenues up by a lot less than we brought outlays down over that period of time.

Thank you very much, Mr. Secretary.

Secretary O'NEILL. Thank you.

Chairman NUSSLE. Let me report to members, the Secretary has time constraints today that I'm going to respect. It's my practice not to interrupt, I obviously don't interrupt myself, and I'm not going to interrupt the Ranking Member during his questioning. But I will report to members that I will try and keep this to 5 minutes as much as possible. Please help me with that.

With that, Mr. Sununu.

Mr. SUNUNU. Thank you, Mr. Chairman. Welcome, Mr. Secretary.

Secretary O'NEILL. Thank you.

Mr. SUNUNU. I'll use that graph as a springboard to go back to a very simple but important point that you made earlier in your testimony. That is, the overall picture of this budget, the size of the surplus or the deficit, is dependent on just two things. You can either propose to cut spending below the President's level, and we will have a discussion and a debate here about priorities, and perhaps moving funding from one area to another, homeland security, national defense, domestic priorities. But in order to affect the balance, you can either cut spending below the President's request, or raise taxes.

Now, I have heard from the other side that there's no desire or intention to raise taxes, that's a red herring, that's not what we're out to do. You can't get away from the fact that it strains credulity when someone says, well, we would never propose raising taxes in a recession, but you know, that tax increase in 1990 was really a good thing. It's especially problematic when that tax increase almost certainly made the recession of 1991 even worse.

It strains credulity to say, well, we have no interest in increasing taxes, but you know if you want to make a current tax law permanent, we're going to expect you to raise taxes somewhere else, on somebody else, on another part of the economy. You simply can't have it both ways, to say, well, we're not going to cut spending below the President's level, and we're not going to raise taxes, but then hedge your bets by saying, you know, maybe raising taxes in a recession is a good thing, or if you want to make the tax code permanent, you've got to raise taxes elsewhere. I think we need a bit more clarity on what the policy intentions really are.

Now, having said that, there is one other way that you can make a difference, and that's to increase overall revenue collections by strengthening the economy. And here also the President's budget, I think, has tried to take a step in the right direction.

In fact, all of this discussion about the balance and debt and deficit, at the end of the day, when we're looking at the total debt to tell by the public, or the debt ceiling, I really have one question. And that is, what effect has the change in our debt position or our deficit projections had a material effect on the capital markets and on the economy?

We've seen a whole host of changes in the world since September 11. More spending for homeland security, more spending for national defense, a big slow-down in the economy, a big reduction in revenue forecasts. As a result, a big increase in the forecast, a significant increase in the forecast for deficits and a much higher forecast of debt held by the public out there in the markets.

My question is this. With all of these announcements, all of this news and information going into the capital markets, what's happened to interest rates? Has it had what I think many might have expected would be a very damaging effect to the capital markets, a big increase in interest rates, now that we're not going to be retiring so much debt?

Secretary O'NEILL. The Treasury rates are down. And I think the 10 year Treasury rates, as I said in my testimony, are down. This morning as I was leaving the office I think the 10 years were trading about 490, which is off of their 8 month trend as compared to the 1993 period where we were looking at something over 6 percent.

But I think you raise a very important point that everyone should understand. Long-term interest rates are a function of two things. They are a function of the necessary cost of capital, that is to say, the rate that's required to cause people to save money instead of spending it, which has tended since 1870 or so to be in the 3 to 3½ percent range. The rest of the long-term interest rate is an anticipation the markets have about inflation rates. The reason why we now have this 10-year rate at 490 is because the markets are anticipating that inflation is going to stay under control.

Mr. SUNUNU. So despite all the announcements, despite all the change in the forecasted surpluses, despite all the impact that this might have on our ability to retire debt, you've actually seen interest rates go down?

Secretary O'NEILL. Exactly.

Mr. SUNUNU. A second question, and maybe a more forward looking one about the economy. We all want the economy to begin growing again, we're all concerned about job creation. That, more than anything else, will have an impact on revenue growth and on restoring surpluses. I think there are two things right now that we could do to really make a material impact on long-term economic growth: expand trade promotion overseas and the potential for U.S. companies to export overseas, and pass a comprehensive energy policy. Could you talk briefly, because my time is up, about the impact that those two specific pieces of legislation that have already passed the House of Representatives would have on our long-term prospects for economic growth?

Secretary O'NEILL. Let me say just a few words about the trade promotion authority first. I'm convinced, and this is now not just observation but personal experience, that the thing that has powered our economy in the last 15 years is the ever more open economy that we're running. Because it has brought us high value goods at lower prices than we otherwise would have had. It's also brought us competition, it has forced our enterprises and entrepreneurs to constantly get better at what they do.

While sometimes one would wish that there would be something called pricing power, which is to say, when your costs go up, you don't have to find offsets, you just raise your prices. It is really to the benefit of our economy that we've had an open economy, more open than any other, that has caused us to be unbelievably productive. I said earlier, this morning's report is fourth quarter productivity rate in the U.S. economy, 3½ percent, just unexampled in our experience.

On the question of energy and the need to pass energy legislation, our President has said over and over again that we need to better protect ourselves from energy dependence on the rest of the world. We fashioned a program that we think brings all the parts together to give the Nation an energy policy and energy programs that will support and implement the policy. We need it now.

Chairman NUSSLE. Mr. Clement.

Mr. CLEMENT. Mr. Secretary, great to have you here today.

Secretary O'NEILL. Thank you.

Mr. CLEMENT. I know you've got a tough job. Commenting about what my colleague said a while ago about taxes. We Democrats are not going to propose a tax increase, and I don't think the Republicans will at this time.

Also, I want to talk to you in terms of our economy, where we are. I'm a veteran, served 2 years in the regular Army, 29 years in the National Guard. Very strong on national defense. I will vote for an increase in our defense budget and bolster our homeland security.

My concern is that the White House is not giving the consideration to you and the other members of the so-called economic team the weight we should have to turn this economy around. I'm worried about the recession. I'm worried about the emergencies that we have. I'm worried about what happened September 11.

I just don't see the White House giving the same consideration to the economic team as the White House is giving to fighting terrorism and bolstering homeland security. I know you commented a while ago about job creation. But the fact is, we've lost a lot of manufacturing, industrial jobs in the United States. We're not in a recession, but depression with high tech. And that applies to many of the other so-called economic sectors of our economy.

Therefore, I have to ask you the question, where is the economic team, and just like John Spratt commented a moment ago, where is our plan? Where is our strategy to turn things around? Because in 1 year—I'm not talking about 10 years, but in 1 year—we've had an unbelievable turnaround and $5 trillion has disappeared. I'm no worried about a 10-year forecast. I'm worried about maybe we ought to go to a 6-month forecast, rather than a 10-year forecast, to have something that's believable.

Secretary O'NEILL. First of all, I don't think there's any mystery to the difference between the January or February 2001 10-year projections and the ones we have now. The CBO has laid out very well why the numbers are different, and a very substantial reason for the difference is the economic slow-down and terrorist attacks. I think it's just very clear that those conditions have made a huge difference in the forecast of future surpluses.

Now, I would hasten to add, as I said before, and I will say again, I am a great optimist, and I suspect we can and will do better going forward. We've given you the best estimates that are actually more conservative than outside estimators. But to your comment about high tech depression, I would say this. The slow-down in our economy began in the year 2000. It didn't begin in 2001.

And the reason that we began to see a slow-down is because there were excesses in our economy reflected in the high tech industries. High tech companies were, in more than a few cases, pushing their products to the degree that they were providing finance for their customers to buy their products. Because without that push, there wasn't enough demand to keep the rate of growth going.

It's not an unfamiliar thing to see in our own economy, in the world economy, excesses that result in a period of readjustment. I think we've seen that to a fair-thee-well with the likes of CISCO and Nortel and the other information technology communications based companies. They were running at an unsustainable rate and our economy finally said, stop, we can't keep doing this.

Mr. CLEMENT. But let me ask you this, getting away from high-tech—transportation. I'm on the Transportation Committee. We're taking a hit from the Bush administration of $9 billion. I know the State of Tennessee alone, that's $158 million. That's a lot of jobs. That's thousands of jobs that we're not going to have simply because of this proposal.

Secretary O'NEILL. Let me be clear about this. You're not taking a hit from the Bush administration. The Congress has passed a law that tells us how we will calculate the amount of money that's provided in any year's budget. We have faithfully followed the law. We are proposing to spend the dollars that flow from a law passed by the Congress that tells us how much money we should spend on highways in any particular year. We have simply followed the law, as we have in previous periods.

Mr. CLEMENT. But we could draw down the Highway Trust Fund.

Secretary O'NEILL. If you wanted to change the law and spend more money than what the President's proposed, you could certainly try to do that.

Chairman NUSSLE. Mr. Gutknecht.

Mr. GUTKNECHT. Thank you very much, Mr. Chairman, and welcome, Mr. Secretary.

Secretary O'NEILL. Thank you.

Mr. GUTKNECHT. I want to change focus just a minute, because I think there are two issues that are very important that your office can really help us with. As you mentioned earlier, we're going to have to wrestle with this whole issue of debt limit some time within the next month and a half. I want to talk about that, and another issue that your office can be very helpful, and that's called dynamic scoring.

We talk a lot about that here in this committee and in the Congress. I think most of us agree that if you tax economic activity at 100 percent, you're going to get a lot less economic activity. I think we all instinctively know that tax policy has consequences. Unfortunately, when the Congressional Budget Office or the Office of Management and Budget or the other economic prognosticators apply their pencils to whatever tax law changes we might recommend, they're not scored on a dynamic basis.

Now, I have become aware just recently that within the bowels of your offices, they do have the computer model to do dynamic economic scoring. Yet they continue to refuse to use it. I guess the question about dynamic scoring that I would pose to you—and with your signature you could change that today—if you and your minions are unwilling to use that computer model, would you mind if we did? Because as long as we continue to use the old way of scoring these things, we will never see the permanent tax relief that I think is important.

I do appreciate this chart. I think every Member should take it home and show it to their constituents. Because a fact that we always forget, in America today, the average family spends more on taxes than they do on food, clothing and shelter combined. That is disgraceful. And it's going to remain so until we can get some help from your office to get dynamic scoring.

So, sir, if your people are not going to use that model, would you mind if we did?

Secretary O'NEILL. Well, we live with the conventions that you all decide are the appropriate ones for us to use. And one of the things I think, I don't know how this committee would feel about it, but I think one of the things that would be useful to do would be to look at the conventions that now exist and are required for how we present information to you. If there was an agreement that we should give you both static and dynamic numbers, we could certainly do that.

That is not the convention you all have adopted. And you all have, I was saying earlier, there are lots of conventions that have been put onto the Congressional Budget Act of 1974 that simply bear elimination or modification. I would think it would be a worthy task for this committee to reconsider some of the things that cause perverse effects, including this issue you raise about not having dynamic scoring.

If you'd like to have dynamic numbers, I'd be happy to give them to you——

Mr. GUTKNECHT. Well, I would.

Secretary O'NEILL [continuing]. If you can get them into the conversation, God bless you.

Mr. GUTKNECHT. Well, they're in the conversation. But the difference is, this committee and the Congress speaks with many voices. You speak with one. You have a huge advantage in this debate by clarifying this and at least providing two sets of projections. Then we'll have to determine public policy collectively. But you could be very helpful on that.

The second point I want to get back to you is this debt limit. Because everyone in this room knows that the money that comes in through the Federal Insurance Contribution Administration, it's a contribution, not a tax, there's only two things essentially that can happen to that money. You can either pay benefits or you can buy government bonds, right?

Secretary O'NEILL. Right.

Mr. GUTKNECHT. So as the economy improves, as more people go back to work, which we certainly hope that they will, then we're going to have more money coming in, and that raises the debt.

At some point, it seems to me we've got to have honesty as it relates to the Federal debt. I think Representative Chris Cox has proposed, I think, a very, very interesting solution. So that we begin to define real publicly held debt as the national debt. I would hope the administration would not only take a serious look at that, but become an ardent advocate of that position. Because it seems to me we're not being completely honest about public debt when we say that the debt's going to go up if the economy improves.

Thank you, I'll yield back my time.

Secretary O'NEILL. May I say just one word about that?

Mr. GUTKNECHT. Please.

Secretary O'NEILL. I think we all know, debt is a consequence of all the other actions taken by the Congress. Having a debt ceiling is an anachronism beyond belief that we still have to go through this process. That's one of the reasons why there is a Budget Committee, to try to get a better handle on the total implications of what the Congress does, so that whatever the debt turns out to be, it's not an ill-considered thing that fell out of the sky, it's a consequence of all the other actions taken collectively by the Members of Congress.

Chairman NUSSLE. Mr. Capuano.

Mr. CAPUANO. Thank you, Mr. Chairman.

Mr. Secretary, in hopes of staying to my time a little bit, I have a lot of questions, but first of all, I'd like to see if we can get some copies of some of the documents you claim that we would have been out of recession by now had 9/11 not occurred. I have seen nothing that would suggest that, and I would just like to see whatever you have.

Because the only thing, we listen to CBO, we listen to some other things, I also try to follow some of the basic indices. Just looking at the stock market alone—I'm not looking at 9/11, because it's hard to tell what the impact of that was. I mean, if the recession did start in the spring, which I think everybody has come to the conclusion of, I look at it from the date the President signed the economic growth bill. And right now, since that date, as of right this very minute, the stock market is down 13 percent. I wonder how that bill might have stimulated the economy if we're down 13 percent.

I guess in theory you could say, well, we would have been down further if the bill hadn't done. But I look at reality and reality is measured by what has happened, not what we think might have happened.

I look at it, I guess to me, when I heard the President come out and publicly state, no, his tax bill in the future, over my dead body will it ever be changed, great, great political statement, good headlines. But since that day, the stock market's down, oh, I don't know, 6 percent. I just wonder how that helped the economy. I know it's good politics, but I wonder how it helped the economy.

So I'd be interested in seeing some of the statistics that you're using to make those statements. Again, I'm not prepared to argue with you, because I don't know. So I'd like to see them.

I guess to me, I also want to talk about Social Security. We have a lot of rhetoric all the time, and I'm going to say to you the same thing I said yesterday to Mr. McDaniel and to others. I look at the proposal before us and I look at the Social Security Trust Fund being dipped into for the next 8 to 10 years, depending on how you measure it.

And people at home don't understand off budget, they don't understand on budget, they don't understand this, that or the other thing. They do know one thing: the average person making $40,000 at home, right now, all across this country, between them and their employer's share of the Social Security FICA payment, pay $4,960 each and every year that they think is going to Social Security. I want them to know, and I want it clearly said that that $4,960, which is very real money out of their paychecks, it's not phony money, it's not bond money, it's not borrowed money, it is cash out of their pocket, is currently being used and will be used for the next 10 years to balance the budget. It will not be used to stabilize Social Security.

You have to add me to that talk show list, I guess. Because though I do not believe that current Social Security recipients will at all be hurt, I do believe with every ounce of my soul that my generation has a risk, a real, serious risk, of not having Social Security there when we need it. I have a real belief of that, and if that puts me on the talk show, so be it.

But I don't think that makes me unique. I have never said, and I have heard almost no one say, that current Social Security recipients are jeopardized one bit. It's about the future of Medicare, not just Social Security. So whatever talk shows you can get me on, give them a call, I'll give you the phone number later on.

I guess the only other point I want to make is, again, my numbers may be wrong, and I'd like to see them, but in the budget proposal, I see on page 31 the claim of 300,000 jobs being created by the new stimulus proposal the President is pushing. On page 397 of that same book, I see that the cost for that stimulus package is estimated at $77 billion in this fiscal year. Simple math, that means $256,667 per job. Where do I get one? That's a pretty good job, I know a lot of people who would want it.

For me, if that's what we're going to do, if that's the measure of success, which is fine, it's a good measure, I'd rather give people, I know lots of people who'd jump at $50,000 a job. That's five times as many jobs being created if you just simply create a jobs program. If that's the only measure of success, if that's how we do it, I'd like to see the money used a little bit better. I just don't see, I'm not sure how you'd measure the benefit of $256,000 per job. I understand the theory of potentially maybe stabilizing the economy for the long-term future. But I don't see it here. Again, anything you provide me at a later time or now, whatever you want that would make me a little more comfortable.

All I know is, if that money were being spent on a housing program, $256,000 per unit of affordable housing, I'd have HUD in here screaming it was an ineffective program and we ought to cut that program, too much money. And I would happen to agree that it would be. I'm not so sure it's any different for jobs.

Thank you.

Secretary O'NEILL. Let me start with the end of what you said. If you would like to have a greater economic efficiency in the stimulus package, then what you favor is not giving anybody an extension of unemployment benefits and you don't want to provide any continuation coverage for health benefits. These are the transfer payment portions that make the cost of protecting 300,000 jobs what you say. Because there's a compassionate component in this $80 billion that's a very substantial part. It's about half of the total cost, is about the President's sense of compassion, which I would hope you would join, about caring about the people who were dislocated by September 11.

So if you want simple economic efficiency, then there's a way to get that. But I doubt that you really don't want the compassionate part of this budget.

To the issue that you make about the Social Security, I would propose this to you. I think it's time that together, we create a Federal balance sheet that has the unfunded liability of Social Security for your generation on it. It's $10 trillion or $10.5 trillion. Then maybe we can have a really interesting conversation about how we need to make reform instead of the rhetoric about stealing from the Social Security Trust Fund, which we all know is not true. Nobody's taking a single penny out of the Social Security Trust Funds.

I would be delighted to have an argument or a discussion, more politely, about the unfunded liability and put it on the Federal balance sheet, so we can have a conversation that has meaning.

Chairman NUSSLE. Mr. Putnam.

Mr. PUTNAM. Thank you, Mr. Chairman.

Good morning, Mr. Secretary.

Secretary O'NEILL. Good morning.

Mr. PUTNAM. Thanks for sticking around until we get down to the freshman questions.

If my friend from Massachusetts is worried about his Social Security, I can assure you, I've already given up on getting mine. [Laughter.]

We're looking forward to solving the economic problems of today so that we can focus on the future of Social Security down the road and come up with a better system.

We have such a dynamic and diverse economy. There are so many different moving parts to it, from the manufacturing and industrial and agricultural and high tech and the whole gamut of opportunities for people to be gainfully employed and pursue the American dream. But for one particular sector that has been highlighted even before we hit the official recession, rural America and the agricultural sector have been depressed for some time.

As we develop these strategies and pursue expanded trade, and pursue these growth strategies to bring all of the American economy forward, are there some things in particular that we can do to help rural America get an extra leg up beyond just making the Farm Bill more generous year after year?

Secretary O'NEILL. Well, I think, you know, we work on trade promotion authority. One of the things were going, I think, to continue to do, we're going to continue to provide opportunities for markets that are not now served. A huge part of our rural America's farm product is going offshore today. And a reason to pursue trade promotion authority is to keep expanding those markets. That rightfully should be the attention of U.S. producers.

Probably the most productive area, growth area, after maybe semiconductors, is the U.S. farm economy. It is really remarkable the rate at which our farmers have been able to improve their ability to produce more and more product with fewer and fewer resources. I think that's an important aspect of helping rural America, more particularly farm part of America.

The other thing we need to do in a broader sense, where we don't have such a dense population, is to continue to see to the growth of our economy. Because more and more, if you look at where American industry is expanding, it's expanding in small towns with plants that have 100 to 300 people. It's not the story of mammoth plants with tens of thousands of people any more.

The more we can do to create the conditions for economic expansion across the totality of the American economy, the more we're going to see that spreading out and benefiting more and more people and reducing the pressure to centralize the population as well.

Mr. PUTNAM. The reason why I ask you that, I certainly understand you're the Secretary of Treasury and not the Secretary of Agriculture, but from a macro perspective, from the total economic, the total view of the American economy, 25, 50, 100 years from now, what role do you see production agriculture playing in the American economy? What role do you see traditional manufacturing jobs playing in the American economy? Are we really so sophisticated, are we really so technologically advanced, that we will essentially export our ability to produce our own food and fiber, or will there be other factors that emerge?

Secretary O'NEILL. I don't think so. I think if you look back 25 years ago or 30 years ago, in the best farm land in Iowa, the yield, the corn yield was maybe 65 or 70 bushels an acre. Last fall, some relatives that I talked to about these kinds of things I think had a crop yield of 210 bushels an acre, which is really just phenomenal.

I'm one who doesn't believe there's a foreseeable end to the productivity potential of the U.S. economy. For that particular crop, if you go back 25 or 30 years, we were still planting corn in rows so that we could get equipment between the rows of corn to do weeding. And now we plant corn like grass, so that we don't have to worry about weeds growing up in the crop once the plants are established.

I don't think we're done with that. Our ability to conceive of new technology, you know, this, if you go ride on a combine in an Iowa corn field, the computer is measuring the moisture content and the yield on an acre basis, so that in the next planting season, the computer knows where to put the more intense fertilizer to raise the yield in areas that are low land or rocky or whatever. I don't think we've even touched the surface of what's technologically possible to continue to have the U.S. farm economy as a critical part of our economy and feeding the whole world.

Mr. PUTNAM. Thank you, Mr. Secretary. Thank you, Mr. Chairman.

Chairman NUSSLE. Mr. Price.

Mr. PRICE. Thank you, Mr. Chairman.

Mr. Secretary, welcome to the committee, thank you for your testimony.

Secretary O'NEILL. Thank you.

Mr. PRICE. I'd like to begin by making what I hope you'll understand as a constructive suggestion and then move to a question having to do with the corporate alternative minimum tax. I just can't help noting in your statement the thumbnail historical account you give of the progress that we made in the 1990's toward digging ourselves out of the fiscal hole, retiring some of the national debt and making responsible use of these unprecedented surpluses.

You say in your statement that fiscal discipline was imposed by the historic Omnibus Budget Reconciliation Act signed in 1990 by President Bush. I remember that battle, and I think you're exactly right to give a great deal of credit to President Bush, Senior. You might have noted that Newt Gingrich and most House Republicans opposed that act. But it was bipartisan, and it did have a lot to do with our economic turnaround.

Why is it too much to mention the 1993 Deficit Reduction Act in a parallel fashion? The 1993 act was remarkably similar in its aggregate impact. It was remarkably similar in the mix of spending cuts and tax increases that it contained. Now, the political dynamic was very different; it was passed with Democratic votes alone.

But I think any fair analysis would say that those two acts, in tandem, are responsible for what we saw in the 1990's. So why is it so difficult to acknowledge that? Why is it so difficult, even in a thumbnail sketch, to give that kind of balanced credit where credit is due? It would really make for considerable bipartisan goodwill. That's a commodity that I think is too often missing from our budget discussions.

Let me now turn to a question. There are——

Secretary O'NEILL. If I may, I'd be happy to——

Mr. PRICE. That's fine, but I don't want to lose my chance to ask further questions.

Secretary O'NEILL. I'd be happy to stipulate your point. I think certainly that's a contributing thing. The other thing that's really important, and I didn't make much out of it, is the unbelievable productivity spurt that we got in the private sector, partly because we were faced with strong competition from offshore.

Partly because I think the American people got their act together and realized that the slowness that we were acting with during the late 1970's and early 1980's was going to do us in unless we saw our role in the world as leading the world and not just kind of lollying along. It's remarkable what we accomplished in that decade together.

Mr. PRICE. Absolutely. I agree with that, and I also think the positive signal sent to the markets by the Acts of 1990 and 1993 had a great deal to do with our economic performance.

I would ask you something perhaps more mundane, but it has to do with what I'm hearing from constituents and what I'm wondering about myself. There are reports that the Enron Corporation, over 5 of the last 6 years, paid no Federal taxes whatsoever. I'm not sure if that's true. If it is true, I wonder why it's true, given the presence of the alternative minimum tax. I think laymen don't understand why, with an alternative minimum tax in place, which supposedly takes care of this kind of problem, why that would still be possible.

So does this point to some flaws in the alternative minimum tax, and does it lead you to reconsider your position on the corporate alternative minimum tax in general? As you know, House Republicans have proposed, not only to repeal the corporate AMT, but also to refund corporate AMT payments over the past 16 years. What is your current disposition toward that proposal?

Secretary O'NEILL. In the December action by the House, there was an AMT provision that was prospective that would have cost, over the 10 year accounting period, $1 billion or so. We were favorably disposed to that.

To your earlier question, as I think you know, under the law, it's prohibited for me or for anyone else in the Treasury Department that doesn't have a direct duty in the IRS, to examine a tax return. So I haven't got a clue what's in anyone's tax return, including yours and Enron's. I think that's an appropriate law.

Now to the broader question of whether every individual and corporation ought to pay taxes, I think they should pay the taxes that are required by the law. Those who don't pay the taxes that are required by the law ought to be punished to the fullest possible extent, including going to jail. If the judicial system finds in this particular case that you're mentioning that they violated the law, I assume the Justice Department will pursue them to the point of incarceration, if that's what's indicated.

Now, is there a broader principle that people should pay no matter what the law says? I don't think so. If there are people who make $20,000 a year or some even make $40,000 or $50,000 a year and by our tax law they don't have to pay any taxes, should they volunteer to pay taxes? I don't think so.

Mr. PRICE. Well, I'm not asking you, obviously, to comment on the legality of Enron's behavior. What I'm asking is, are there loopholes in the law that make this a conceivable outcome, that a corporation could completely escape taxation for 5 out of 6 years?

Secretary O'NEILL. Well, let me say that I presume that Members of Congress carefully consider the provisions of the tax code, and whatever is there is what you all intended. If people and companies legally use the tax code as you all apparently intended it, and end up paying some lesser or greater amount, I assume that's what you intended.

Now, if there's fraudulent behavior, let me say again, I think we ought to put fraud makers in jail. There should not be any room for American citizens or companies violating the law of the land.

Chairman NUSSLE. Mr. Miller.

Mr. MILLER. Thank you, Mr. Chairman.

Mr. Secretary, it's good to have you here today.

Secretary O'NEILL. Thank you, it's nice to see you.

Mr. MILLER. My good friend, who's gone now, made a couple of comments. One, he applauded the President for receiving input as it applies to the war on terrorism, and how he's handled that. Then he said the White House, meaning the President, he would encourage him to give more consideration to the White House economic team when making economic decisions on how to stimulate the economy.

You didn't have a chance to really address it, but I believe he's done that. I don't think the stimulus package was developed in a vacuum. I believe that his economic team at the White House was very involved in that. Shame on the Congress for not implementing that, for bottlenecking. The same thing with trade promotion authority. I think that was well debated with his economic team, and the benefits were seen in that. We saw that in our House, yet it's gone nowhere.

The comment also about taking a transportation hit as far as budgetary constraints, and I applaud you in your response. You're correct in the dollars that were received are being spent where they belong. There's a debate many of us, some from California and other States, think you could take money out of the Farm Bill and put in transportation. But I know the Chairman and others might not agree with that.

So it's just a matter of prioritizing a limited amount of dollars out there. You were commenting when I walked in about the open economy and how that has fueled the economy, and I agree with that, and the competitive marketplace, how that's beneficial. You have a lot of regulatory authority, and one we've talked about that has brought some concerns up to me is, a lot of Americans just think that the Treasury Department is the Federal Government's bank, money goes there and it sits there and you pay our bills as they come in.

But you have authority well beyond that. One issue we have talked about earlier, along the lines, and maybe you could tell me a little more about where you are in the process regarding banks and other financial holding companies, then becoming more active in real estate as it applies to selling real estate, bundling as it applies to them also doing title policies. Where are you on that decision?

Secretary O'NEILL. Let me respond directly to your question, but don't let me forget to come back. There's one point I want to make on your earlier comment. On this issue of, I guess it was an issue that was addressed in the sweeping regulatory scheme that was in the Graham-Bliley legislation of a couple years ago, raised the issue of extending to banks the opportunity to be in the real estate business. It's something that we've been looking at now for some time.

The way you all set these terms, it's necessary for the Treasury and the Federal Reserve to come into agreement on whatever we might do. Because of all the concern that's been expressed, we've been talking with the Federal Reserve about what we might do. At the moment, we're seriously looking at the possibility of reopening the comment period because there seems to be so much division of opinion about what ought to be done. We haven't quite decided yet, but that's where we're tending toward at the moment.

Mr. MILLER. So in that specific area, there is, I've been a realtor and been a developer in the past, I think banks do a great job of what they do. I think realtors do a good job of what they do, and I think the title insurance company does a great job of what they do. However, when you look at the concept of bundling, I think it creates a tremendous conflict of interest, especially when realtors, bankers, and title policies, how does a title insurance firm that's owned by the bank insure title against the loan they made to the person who bought the house? It creates too much of a conflict.

Yet when you put a bank in a position where they can sell the house internally, they're automatically going to do the loan and automatically do the title policy. It eliminates a tremendous amount of competition, which I think has been healthy for the economy and the industry. That's what I'd like you to kind of address, and I think you're going that way.

Secretary O'NEILL. Well, I don't really have a knowledgeable point of view on the substance. What I have developed a knowledgeable point of view about is the ambiguity of the legislative history on this subject, which I find frankly very unfortunate because I don't think that the executive branch should be writing laws.

Mr. MILLER. I agree.

Secretary O'NEILL. And when we're left in a position of huge ambiguity about the intent of Congress, then we're torn one direction and another. In effect, we become the law writer instead of the regulator. I think it's totally inappropriate.

Mr. MILLER. I agree.

Secretary O'NEILL. If I may go back to, because I wanted to comment on one point you made about comments that were made earlier, and the characterizations that were made. In the interest of not using everyone's time, I have chosen not to respond to everything that's said. So I hope the fact that I don't respond to everything that's said doesn't mean I agree with everything's that's said.

Mr. MILLER. I tried to respond for you.

Secretary O'NEILL. Thank you.

Mr. MILLER. You're welcome.

I yield back the balance of my time, Mr. Chairman.

Chairman NUSSLE. We have two votes on the floor. I'm going to take Mrs. Clayton for her time, and then we will recess until after the second vote. We will continue the hearing.

Mrs. Clayton.

Mrs. CLAYTON. Thank you, Mr. Chairman.

Thank you, Mr. Secretary. I do appreciate your consistency, but let me just make a couple observations about the budget. The budget is a budget that we understand is in war times, so there is an overriding assumption that there should be no question about the amount of money that we allocate to defense. If you question that, then you don't understand that this Nation is at war. We all understand that we are at war.

But at the same time, regarding discussions about the budget, it should not be seen that useful discussion about differences of how we protect Americans and protect their Social Security, as well as protecting their health care, and their education. To what extent the amounts of dollars, whether it be national security or homeland security, has to be balanced doing so, I think the President said, we have to do whatever is required.

Well, the question is, not to question the President as to what's required, but to question how much. A discussion about the budget is the most important issue we can talk about because it is here where we actually put meaning to the political words we talk about. It is the allocation of the Nation's resources as to whether we care about the people. We protect our people from foreign invasion, but we also ought to protect our people's quality of life.

So my concern is that this isn't balanced in that regard. I am concerned when there is money taken away from job training. I am concerned when there is not enough money put in for senior citizen prescription drugs. They also need to be protected.

I see the protection from terrorism, the protection for life being all equal threats. I applaud the priority of having national defense. I applaud the priority of doing more for homeland security.

When thinking about raising the deficit, you are right, the law is structured and there are no other choices. The reason that you have to do this is because the consequences requires action now, the public debt we now have, you claim that the money that comes is a contribution that goes to Social Security, not really taxes, but people think of it as taxes when they come off. They also don't understand that the money is not there in cash. You understand that it is an IOU from the government to the trust fund.

Secretary O'NEILL. Right.

Mrs. CLAYTON. That's good for intellectual discussion. But for the heartland, they don't understand that. So they have a concern about the way to finance the government, we are actually taking those IOUs, those surplus now, and paying off the debt. Those are comments, you can respond to them if you like. I do appreciate you coming here, but I do want to say that we ought to have a discussion that allows individuals to debate all of this. We shouldn't say that defense is a sacred cow or defense should never be debated.

Now, I'm for defense. It should be that we ought to do far more for our military men and women than we are doing. Why do we need to put so much in old fashioned instruments? We're putting the same dollars that we would have put in 2 years ago after the terrorist attack, the same technology, and yet we have been invaded by terrorists. So we have learned nothing in this process.

So some of us want to question that. Some of us want to say that we are very patriotic and we want to have the strongest defense. What constitutes the best defense given the attack of September 11? It seems that we have a different kind of strategy, all of it wouldn't be going to be the same technology, the same instrument, the same budget with no strategic difference in our approach to that.

Thank you, Mr. Chairman. Thank you for allowing me to have the time.

Secretary O'NEILL. May I just say one thing? I very much agree with the philosophical and programmatic content of what you said. This is outside my oversight responsibility. But I think it's true that the Congress has expressly forbidden the Defense Department to even consider additional base closings, which would save money that could be used for some other purpose. So I agree with you completely, it's useful to look at everything. We should stop spending money on bases that don't really have a reason to exist any more as an example of having a more rounded approach to what we're doing with our money.

Mrs. CLAYTON. Thank you.

Chairman NUSSLE. Thank you. Mr. Secretary, as you see, our fancy new system here, next week we'll be showing the Winter Olympics. [Laughter.]

Right now it's just the floor of the House.

Secretary O'NEILL. I'll come back for that.

Chairman NUSSLE. We have a vote on, so we'll stand in recess, potentially three votes, this one and two others. Thank you.

Secretary O'NEILL. Thank you, Mr. Chairman.

[Recess.]

Mr. HASTINGS [assuming Chair]. The committee will come to order. I want to once again thank Secretary O'Neill for being here, and the members who are coming back from the votes. I've been advised that the Secretary has time constraints also, so if there's only us, I suppose we'll meet those time constraints very easily.

Mr. Secretary, I apologize for not having been here earlier, but I had some responsibilities on the floor. But I understand that the questioning here was somewhat similar to what we went through yesterday when Director Mitch Daniel was here. A lot of the talk there was regarding the spending and past budget agreements and so forth.

I understand that you mentioned the role of the 1990 Budget Agreement that kicked off the economic boom. But I understand that you did not mention the 1993 plan that was signed by President Clinton. I just wondered why is that. Is it because the dynamics of both of them were different?

Secretary O'NEILL. The simple answer is yes; plain reaction control for some of that. Also I would say, I don't think that tax increases are pro-economic growth and job generation and wealth creation. I was asked a question before you were here by one of the members. I said in the spirit that the question was offered that, the suggestion was it would be nice for us to have a bipartisan sense that everyone wants to do well.

I said I would stipulate that, and went on to say that I also didn't mention in my prepared statement how important it was that our private sector found the will and the way to produce unbelievable rates of productivity growth as compared to previous periods. So I think there's a lot of credit to go around. Again, I think the less money we can take away from the people who earn it to do the public business, the more rapidly and effectively we'll be able to grow our economy.

Mr. HASTINGS. One other observation that I might have. Yesterday in the Budget Committee, it was pointed out that the Reagan tax cuts caused the deficits. But my understanding was that the agreement, and I wasn't here then, and I don't think you were part in any way of the government either, but the agreement was that in exchange for the tax relief, because of the static scoring, there was to have been a reduction in spending. That didn't happen, I think spending was about at 150 percent, if my memory serves me correctly, of the tax relief.

But during the whole 1980's, revenues to the Federal Government in fact doubled.

Secretary O'NEILL. That's right.

Mr. HASTINGS. And the problem was that spending increased faster than the revenues.

Secretary O'NEILL. That's precisely right.

Mr. HASTINGS. What you're suggesting in the Clinton budget, while spending was restrained, at least less than what the revenue growth was, and therefore we could catch up.

Secretary O'NEILL. That's right.

Mr. HASTINGS. Thank you very much.

Mr. Moore from Kansas.

Mr. MOORE. Thank you, Mr. Chairman.

Thank you, Mr. Secretary, for being here. I'd like to carry on, I guess, with part of this bipartisan atmosphere, but I do have some questions and some comments I'd like to make. A year ago, there was a lot of discussion in Washington, the President and leaders of Congress and a lot of people in Washington about the dangers of paying down the debt too soon. That's something I told people back home, you don't have to worry about Congress ever doing that, that's not going to happen, in my opinion. I wish it would, because I think it's one of the healthiest things we could do for our country and our economy.

But there was talk a year ago about projected surpluses. I'm going to put it in context, because I certainly don't hold the President responsible for the recession. I don't hold the President responsible for 9/11, nobody does. Nobody of any sanity does. I voted for the President's tax cut last year.

But I do have some concerns, and I expressed some of those concerns to the President when I was at the White House February or March, whenever it was, and we were talking about his proposed tax cut. I told him about tax cuts which have been instituted in Kansas over the past 3 or 4 years. And the legislature in February of last year was in session, and they were struggling to find money to fund education because of revenue shortfalls. That's happened in a lot of States now.

I told the President, I would, to me tax cuts were not a partisan issue and I would support tax cuts appropriate. I thought $1.6 trillion was too much, I wanted $1 trillion. Came back and compromised at $1.35 trillion, which I voted for.

But I guess, I want to tell you, I visit a lot of high schools back home and really enjoy talking to high schools, I say talking to them, I like to listen to them, because they have a lot of wisdom to share. I was talking about budget surpluses and projected revenues and projected surpluses. And I said to this class that I was talking to, what do you think projected means? This one young man raised his hand and said, maybe yes, maybe no. And boy, was he right, because we were all wrong about projected surpluses.

I guess I would ask you, in view of what you've said already, and I supported this last time and I think we need to do this, would you consider supporting 5-year budgeting instead of 10-year budgeting?

Secretary O'NEILL. I think it makes an awful lot of sense to do a 5-year budgeting. I said earlier, it's OK as a mental discipline to do 10-year projections. But we shouldn't confuse that with and think it's a prediction. It's only a guesstimate, if you will. I think we should have a higher sense of discipline for ourselves on 5-year budgeting and yes, I think that's directionally right.

Mr. MOORE. I would hope that you will advocate that within the administration, because I think it really just makes so much sense. Because we can't tell what the weather's going to be 7 days from now, much less what the surpluses or what the economy's going to look like a year from now or 5 years from now.

Secretary O'NEILL. I agree with you.

Mr. MOORE. But 5 is better than 10 years.

I also, when I talk to these high school students, I was talking last year and at that time I think the national debt was about $5.7 trillion. Just coincidentally about the same as the projected surplus. And I was talking about that debt and the benefits of paying down the debt in terms of what Chairman Greenspan had said about lower long term interest rates if we're able to keep our debt down and keep fiscal responsibility.

I said to these students, guess what happens if we don't pay down the debt, who's going to have to pay it down. They all looked at one another and in kind of a chorus they said, "We will." And I think, I believe that you agree with this, and I think most people here agree with this, that it is inherently unfair for us to push our debt onto our children and grandchildren and future generations in this country. I hope we can all get back to the point where we can be talking about hopefully surpluses. It's a lot more fun to govern when we're talking about surpluses than deficits.

But I do want to say, and this is winding down here, you said there are a couple of options. One is raise taxes. Nobody—very few people in this whole body—are talking about raising taxes. The other was cutting spending. There's a lot of talk about that. The other, though, is no new tax cuts. That's another option. Right now, when the President's talking about a stimulus package of $80-plus billion, and we are in a situation where we have to spend more on protecting our country and defending our country, and I think virtually everybody here is going to do that as well, we're behind the President 100 percent on that.

I'm just very nervous, though, about more tax cuts when we're in a situation of revenue shortfalls, and adding to the debt which I'm going to ask my kids and grandkids to pay. I don't think that's fair. I understand you believe it's going to grow the economy. I talked to a Republican banker back home, 70 years old. I said, Ben, what do you think about the President's proposed stimulus package? He kind of laughed and he said, we don't need that. He says, that's really nuts. We don't need to do that. He says he thinks the economy is recovering, as Chairman Greenspan has indicated there are positive indications, and I've heard other economists say that.

So I would just ask you please to consider, maybe the best course of action is to do nothing in terms of trying to further stimulate this recovery if it's underway. Because if it is underway and we do that, we're going to end up adding to the debt that we already have in this country. I say that with all due respect, and I really mean that. Because I hope and believe we're all working toward the same objectives here. Thank you.

Secretary O'NEILL. Thank you.

Mr. HASTINGS. Mr. Davis.

Mr. DAVIS. Thank you, Mr. Chairman.

Mr. Secretary, thanks as always for your candor. It's refreshing.

Secretary O'NEILL. Thank you.

Mr. DAVIS. One of the comments you made earlier I'd like to enlarge upon was your statement the only way to get money was to take it away from people. That normally describes us just raising taxes to fund the government. But as has been made painfully clear today, and I think you would agree, because we can go into deficit spending, into this publicly held debt, which I think roughly is about $3.4 trillion, we also have the ability to take money away from one generation and give it to another.

Now, I applaud your candor in acknowledging the relationship between increasing the size of the publicly held debt and the impact on interest rates. As I'm sure you know, in 2002, under your proposal, we will increase the publicly held debt by $157 trillion.

Secretary O'NEILL. Billion.

Mr. DAVIS. And I understand your further point that you think the impact will be de minimis in terms of the impact on interest rates, and I certainly hope you're correct. I know we'll have some debate about that.

Given how fragile these projects are, Mr. Secretary, and how fragile they continue to be, and this is a chart, it's not the unified budget surplus, it's just the Social Security and Medicare Trust Fund surpluses, shouldn't we err on the side of caution, avoid this further tax cuts the administration proposes, which I think is in excess of at least $800 billion over 10 years, and instead aim for a balanced budget and dealing with the security spending?

Secretary O'NEILL. Well, at the moment, I'm not sure I can get this from your chart, but at the moment, we're anticipating even with the tax reduction of last year, which over the 10-year period only accounts for 40 percent of the difference, and in this year, accounts for 15 percent of the difference, we're anticipating a surplus along with the Congressional Budget Office of $1.6 trillion over the next 10 years.

So with the slow-down in the economy, with the terrorist attacks, with $660 billion worth of so-called technical reductions that reduce the surplus, I think we still do have an appreciable surplus. I honestly do not think it's a good idea to raise taxes to create what I call an accommodation for accountants. I think restoring growth to our economy will get us back on a track that will produce even larger surpluses than what are now being estimated, and it will do it sooner rather than later.

Mr. DAVIS. Mr. Secretary, my question was directed to the new tax cuts that you're proposing, not revisiting the existing tax cuts that were enacted.

Secretary O'NEILL. Well, maybe we could talk specifically about those. In effect, most of them are tradeoffs against spending. There's really no difference. We in the Congress have adopted a process of saying, for example, that at the end of 10 years, everything is reopened and we go back to the status quo on the tax side and the President said, we ought to make the tax cuts that were enacted last year permanent. That means that from a scorekeeping point of view, the fact that we're now saying, the estate tax provisions should be permanent, not just last for 9 months, scorekeeping says that costs a lot of money.

The truth of the matter is the process and procedure and conventions that are followed are unfortunate. Because we all know that when we get to the end of the 10-year period and we're faced with the prospect of increasing the tax rates on the lowest income taxpayers from 10 percent to 15 percent, we're not going to do that.

Mr. DAVIS. Well, Mr. Secretary, at the risk of interrupting, because we're going to run out of time here, my question was directed to the tradeoff, not between spending and the tax cuts, it's the tradeoff between paying down the publicly held debt and the tax cut.

Secretary O'NEILL. Well, why would you trade it any differently than the $48 billion increment the President has asked for to pursue the war on terrorists? Every dollar, whether it's on the spending side or the tax side, if it has the effect of reducing the size of the surplus, is traded against reduction in the publicly held debt. So I think it makes no difference at all.

Mr. DAVIS. There is no disagreement here about whether we should spend the money on the security. The question is to what extent should we put emphasis on paying down the publicly held debt, or taking risks on interest rates versus doing new tax cuts beyond what we did last year?

Secretary O'NEILL. I said earlier that I think the data is really clear in what it is that sets interest levels. The first is kind of a natural or real requirement of capital markets as to a 3, a 3½ percent return for capital on a constant dollar basis. The other portion of interest rates is decided by inflation. To the degree our combined actions here in Washington raise the specter of inflation, then we've got to worry about rates going up. At the moment, I would say inflation is about as benign as it's been for 40 or 50 years.

And so I don't think that's an immediate source of concern. In fact, long rates are down substantially from the level that they averaged from the period 1993 to the year 2000. And then if you want to specifically talk about the tax side, let's take the issue of a proposed tax credit for senior citizens for prescription drugs.

Mr. DAVIS. Mr. Secretary, I have to interrupt you, because the Chairman's about to cut me off. My last question, which is a very brief one, is do you think the assumptions upon which you are basing your proposal, in particular the additional tax cuts of about $800 billion, do you think those assumptions are more reliable than the assumptions you brought to us last year about the rate of growth in the economy?

Secretary O'NEILL. I think the pricing that you find in the budget is the best that human minds know how to make it. I would say the independent Congressional Budget Office has been almost in perfect parallel with what we've been saying. If you look at our estimates of everything compared to independent private sector people, we're always on the conservative side.

Does that mean that I believe the projections of 10-year numbers are ones that I would bet my life on? I wouldn't. Anyone who would simply doesn't understand how life works. I said earlier, let me say again, nobody that I know anticipated the terrorist attacks on the World Trade Center. It was simply—thank God—an un-knowable thing. Hopefully it's a preventable thing going forward.

But we don't know what's going to happen 6 months from now or 9 months from now that could cause us or force us to change our projections for the period going forward.

Mr. DAVIS. Thank you, Mr. Chairman.

Mr. HASTINGS. Thank you, Mr. Davis.

Mr. Secretary, thank you very much for your time here. We apologize for having to break these meetings for our votes. But that's part of the way it works.

I just remind members that the next scheduled meeting is next Tuesday at 2 p.m. We have Assistant Secretary Wolfowitz from Defense.

With that, the meeting stands adjourned.

[Whereupon, at 12:30 p.m, the committee was adjourned, to reconvene at the call of the Chair.]

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