PRESIDENT'S FISCAL YEAR 2005 BUDGET WITH U.S. DEPARTMENT OF THE TREASURY SECRETARY JOHN SNOW

HEARING

BEFORE THE

COMMITTEE ON WAYS AND MEANS

OF THE

U.S. HOUSE OF REPRESENTATIVES

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TUESDAY, FEBRUARY 3, 2004

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
WASHINGTON, DC.

The Committee met, pursuant to notice, at 2:00 p.m., in room 1100, Longworth House Office Building, Hon. Bill Thomas (Chairman of the Committee) presiding.

[The advisory announcing the hearing follows:]

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

FOR IMMEDIATE RELEASE
January 26, 2004
FC–11

CONTACT: 202–225–1721

Thomas Announces Hearing on President's Fiscal Year 2005 Budget with U.S. Department of the Treasury Secretary John Snow

Congressman Bill Thomas (R–CA), Chairman of the Committee on Ways and Means, today announced that the Committee will hold a hearing on President Bush's budget proposals for fiscal year 2005 within the jurisdiction of the Committee on Ways and Means. **The hearing will take place on Tuesday, February 3, 2004, in the main Committee hearing room, 1100 Longworth House Office Building, beginning at 2:00 p.m.**

In view of the limited time available to hear witnesses, oral testimony at this hearing will be heard from the Honorable John Snow, Secretary of the Treasury. However, any individual or organization not scheduled for an oral appearance may submit a written statement for consideration by the Committee and for inclusion in the printed record of the hearing.

BACKGROUND:

On January 20, 2004, President George W. Bush delivered his State of the Union address in which he outlined numerous budget and tax proposals. The details of these proposals are expected to be released on February 2, 2004, when the President is scheduled to submit his fiscal year 2005 budget to the Congress.

The Treasury Department plays a key role in many of the areas of the Committee on Ways and Means' jurisdiction, including taxes and customs.

In announcing the hearing, Chairman Thomas stated: "The President's budget will include tax and other proposals related to Treasury Department functions within the jurisdiction of the Committee on Ways and Means. I look forward to receiving the President's budget and discussing his proposals."

FOCUS OF THE HEARING:

Secretary Snow will discuss the details of the President's budget proposals that are within the Committee's jurisdiction.

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Please Note: Any person or organization wishing to submit written comments for the record must send it electronically to *hearingclerks.waysandmeans@mail.house.gov,* along with a fax copy to (202) 225–2610, by close of business Tuesday, February 17, 2004. In the immediate future, the Committee website will allow for electronic submissions to be included in the printed record. Before submitting your comments, check to see if this function is available. **Finally,** due to the change in House mail policy, the U.S. Capitol Police will refuse sealed-packaged deliveries to all House Office Buildings.

FORMATTING REQUIREMENTS:

Each statement presented for printing to the Committee by a witness, any written statement or exhibit submitted for the printed record or any written comments in response to a request for written comments must conform to the guidelines listed below. Any statement or exhibit not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All statements and any accompanying exhibits for printing must be submitted electronically to *hearingclerks.waysandmeans@mail.house.gov,* along with a fax copy to (202) 225–2610, in WordPerfect or MS Word format and MUST NOT exceed a total of 10 pages including attachments. Witnesses are advised that the Committee will rely on electronic submissions for printing the official hearing record.

2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.

3. All statements must include a list of all clients, persons, or organizations on whose behalf the witness appears. A supplemental sheet must accompany each statement listing the name, company, address, telephone and fax numbers of each witness.

Note: All Committee advisories and news releases are available on the World Wide Web at *http://waysandmeans.house.gov*.

The Committee seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202–225–1721 or 202–226–3411 TTD/TTY in advance of the event (four business days notice is requested). Questions with regard to special accommodation needs in general (including availability of Committee materials in alternative formats) may be directed to the Committee as noted above.

Chairman THOMAS. We are going to ask our guests to find seats, please.

Good afternoon. Today begins our first in a series of hearings to examine President George W. Bush's proposed budget for fiscal year 2005. We are honored to have Secretary John Snow of the U.S. Department of the Treasury join us today. Welcome. Look forward to hearing your testimony.

Mr. Secretary, since your appearance before the Committee during the last year's budget hearings, Congress passed and President Bush signed into law a tax relief to put more money back in the pockets of hardworking Americans. Since the President took office in 2001, his sound economic policies have pulled our country out of recession and created more and better jobs. I will ask you about what I believe to be the undeniable record in the area of economic growth, productivity, and interest rates remaining low, and what this bull stock market means in terms of the future of revenue in 2004.

Additionally, the President's common-sense economic policies continue to funnel more money back into the U.S. economy. I again want to talk about the enhanced economic growth and how it translates into more Federal revenue, not only to help with us the deficit, bring our budget in balance, but provide us with the wherewithal to do those kinds of things that this society needs to do for itself.

However, pretty obviously, our work is unfinished. Once again, this year President Bush outlined plans during his State of the Union address. He detailed important policies in his budget to assist and continue that economic growth, especially making the tax relief enacted in 2001 and 2003 permanent. We cannot inflict a tax increase on the U.S. economy at a time when we are beginning to experience growth and prosperity.

After passing a monumental Medicare bill last year, we now turn our attention to other health care challenges facing Americans, including the large number of families and individuals who lack health insurance. We will explore policy options to enhance access to affordable and quality health care so more Americans can enjoy the peace of mind health insurance offers. The recently enacted health savings accounts (HSAs) in the Medicare bill allow Americans to save money on a tax-free basis to better prepare for medical expenses. These accounts encourage Americans to take vital steps today to ensure their health security tomorrow.

We look forward to you and the President's plans about other saving structures. It will be an important step forward if we can assure Americans that their thrift is being recognized in tangible ways by their government eschewing taxes either on the initial savings, allowing a tax-free buildup, and exploring ways in which there is no tax or tax reduction on payout. Partners in this area is what we need to pursue.

I now recognize the gentleman from New York, Mr. Rangel, for any opening statement he may wish to make.

[The opening statement of Chairman Thomas follows:]

Opening Statement of the Honorable Bill Thomas, Chairman, and a Representative in Congress from the State of California

Good morning. Today begins our first in a series of hearings to examine President George W. Bush's proposed budget for Fiscal Year 2005. We are honored to have Secretary John Snow of the U.S. Treasury Department join us today. Welcome—we look forward to hearing your testimony.

Mr. Secretary, since your appearance before the Committee during last year's budget hearings, Congress passed, and President Bush signed into law, tax relief to put more money back in the pockets of hard-working Americans. Since the President took office in 2001, his sound economic policies have pulled our country out of recession and created more and better jobs. The results are undeniable: record rates of economic growth; productivity has surged at the fastest pace in 38 years; inflation and interest rates remain at historically low levels and a bull stock market escalated $2.5 trillion after the tax reduction on capital gains and dividends encouraged investment.

Additionally, the President's common-sense economic policies continue to funnel more money back into the U.S. economy. Enhanced economic growth translates into more federal revenue that will help reduce the deficit and bring balance to our federal budget.

However, we cannot leave our work unfinished. Once again this year, President Bush outlined plans during his State of the Union address and detailed important policies in his budget to continue the U.S. economy down the path to prosperity, including making the tax relief enacted in the 2001 and 2003 economic growth packages permanent. If these tax cuts—like the marriage penalty relief and the child tax credit—are allowed to expire, working families will face harmful tax hikes resulting in smaller paychecks. Furthermore, inflicting a tax increase on the U.S. economy would prove detrimental at a time when we are experiencing growth and prosperity.

After passing a monumental Medicare bill last year, we now turn our attention to other health care challenges facing Americans, including the large number of families and individuals who lack health insurance. We will explore policy options to enhance access to affordable and quality health care so more Americans can enjoy the peace of mind health insurance offers.

The recently enacted Health Savings Accounts (HSAs) in the Medicare bill allow Americans to save money on a tax-free basis to better prepare for medical expenses. These accounts encourage Americans to take vital steps today to ensure their health security tomorrow. We look forward to hearing your plans to make HSAs more accessible to more Americans. Mr. Secretary, being a trustee of Medicare and Social Security, we're interested in your perspective on how to tackle the funding challenges facing these programs.

I now recognize the gentleman from New York, Mr. Rangel, for any opening statement he may have.

Mr. RANGEL. Thank you, Mr. Chairman. Mr. Secretary, thank you so much for the cooperative spirit in which you have conducted your office with this Committee. We, in the Minority, are very concerned about the nonchalant way it appears as though the Administration is dealing with the deficit.

It has been said that former President Reagan at one time said that deficits really don't matter, and we are concerned that even if the President was able to cut the budget in half in 5 years, that the interest on the indebtedness would be a heavy burden that we would be passing on to the generation that follows.

In addition to that, it seems as though there are items that have been omitted, which I have shared with you earlier. It is as though Iraq doesn't exist in the future as it relates to expenses of occupation, which everyone believes that we will and do have an obligation to do that. At first I didn't think the President was serious about exploring the possibility of life on Mars, but we in the Minority are pleased to hear that he is serious, but we don't see it in the budget, so we don't know how to effectively deal with that in our campaign.

There are other items—the President talks a lot about privatization of Social Security, but we have been led to understand that that is a very expensive project, and yet it is not in the budget, and, of course, the rebuilding of Iraq would be included in that. So, I hope in your testimony that you might deal with that since we will have a limited time to explore which way the Administration is going as it relates to the change when Mr. Bush took office where we enjoyed a $5.6 trillion, 10-year surplus, and now it looks like we will be having a turnaround in terms of a record-breaking deficit.

So, I look forward to your testimony as well as working with you, and as I said earlier, if you have any information that Paul O'Neill shared with you concerning Saddam Hussein, we will be interested in hearing about that as well. Thank you, Mr. Chairman.

Chairman THOMAS. Thank the gentleman. Any Member who has a written statement will be made a part of the record, without objection. Mr. Secretary, nice to have you with us. Again, your written statement will be made a part of the record, without objection, and you may address us in any way you see fit in the time you have available.

STATEMENT OF THE HONORABLE JOHN SNOW, SECRETARY, U.S. DEPARTMENT OF THE TREASURY

Mr. SNOW. Mr. Chairman, thank you very much, Congressman Rangel, for those opening statements. It is always an honor and a privilege to be here before this Committee.

When I appeared before you a year ago to talk about the 2004 budget, you will recall there were serious questions about the state of the American economy and what sort of a path it was on. Fortunately, the Congress acted on the President's jobs and growth bill, and as a result of that far-sighted legislation, the economy today is clearly on a much, much better path. Whereas a year ago there was talk of deflation and talk of a double-dip resection, we have seen the last half of 2003 a period of resounding improvement in the U.S. economy with growth rates in the third quarter gross domestic product (GDP)—growth rates of 8.2 percent, with GDP growth rates in the fourth quarter of 4 percent; with businesspeople showing more confidence, with capital spending coming back, with small businesspeople placing orders for equipment, and with—too slowly, but with improvements in the labor markets as well, improvements that I think we will see strengthen as we move forward.

So, the economy is clearly in a fundamentally stronger and healthier state today, and in large part because of the action you took as Members of Congress in passing the President's proposed jobs and growth bill. So, I commend you for that.

This budget really has three overarching concerns. One is to continue the war on terror and to make the war on terror successful. That doesn't come cheap, but it is a priority that is absolutely critical to the well-being of the citizens of this country and one the President, as he said in the State of the Union message, will not shrink from pursuing. Second, the homeland security. This budget reflects continued investment in our homeland security, another critical priority. Thirdly, by calling for—by calling for making the tax cuts permanent and by calling for improved savings vehicles through the lifetime savings accounts (LSAs) and retirement savings accounts (RSAs) that Chairman Thomas referenced, we will keep the American economy on a stronger course and improve the path of the American economy.

In addition, of course, we can't stop there. The President has called for tort reform, particularly malpractice tort reform, in a badly needed area; for an energy policy that makes America's energy supplies more secure and increases access to energy; for actions on trade, to maintain open trade policies and so on.

It is critical that we keep the American economy on path for sustained growth. The tax cuts last year were critical to putting us on that path, and making those tax cuts permanent is essential to continue that path. The other side of that, the other side of that, just to be plain, is a tax increase on millions and millions and millions of Americans. We simply can't allow that to happen.

With that, Mr. Chairman, I look forward to your questions.

[The prepared statement of Mr. Snow follows:]

Statement of the Honorable John Snow, Secretary,
U.S. Department of the Treasury

Thank you all for having me here today to talk about the President's budget.

I believe you'll find that this budget reflects the priorities of our nation as well as the leadership of President George W. Bush.

The over-riding theme of the budget, and the President's plan for the future, is that a safer world is a more prosperous world. That's why I'll be discussing both national and economic security here today.

Overview of the President's Priorities

Decisions about how to collect and spend taxpayer dollars—for this is what a budget is—must be made with both caution and vision.

The Fiscal Year 2005 budget proposal is, therefore, a plan that does three core things:

- One: Keeps Americans safe by providing the resources necessary to win the war on terror and protect our homeland;
- Two: Increases the economic security of our citizens as well, by strengthening our economy; and
- Three: Exercises the kind of spending discipline that is required by a government that respects the source of its money (hard-working taxpayers!) and is unwilling to live with a deficit.

Discussions of our budget and our economy are not, and should not, be separate. The two are inextricably connected.

Today, our economy is doing better.

Homeownership is up, unemployment rates are heading down, and GDP growth has been extremely strong.

This Administration came to office when those indicators were not nearly as positive.

The President inherited an economy that was in decline . . . one that was then battered by terrorist attacks and revelations of corporate corruption dating back to the 1990s.

The President and his Administration took these challenges seriously and we have made serious progress in changing the economic direction of this country.

The President's tax cuts—passed by you—have worked. They provided the stimulus that was necessary to turn the economic ship around . . . and they are now encouraging and allowing for the economic growth that is continuing into the future.

- Economic growth in the second half of 2003 was the fastest since 1984;
- New home construction was the highest in almost 20 years;
- Homeownership levels are at historic highs;
- Manufacturing activity is increasing;
- Inflation and interest rates are low;
- Over a quarter million jobs were created in the last five months of 2003.
- Unemployment claims—both initial claims and continuing claims—are falling, indicating improvement in the labor market;
- And last Monday, the Dow closed at a 31-month-high. This translates into more than three trillion dollars of growth in value in the markets.

These economic indicators all point to the same conclusion: We are on a path to sustained economic growth.

However, there is more to do. We are not, by any means, satisfied.

There are still Americans who want to find work and cannot—and this Administration will not rest until that most critical need is met and until every American looking for work can find a job.

Our budget addresses that need by continuing to focus on improving our economy.

For example, the President's Jobs for the 21st Century plan, announced in his State of the Union Address, directs the resources of several branches of government toward matching skills with jobs, and helping workers acquire the skills they need to qualify for the jobs in their community.

We can also encourage the creation of jobs by sticking to the President's six-point plan for growth.

That includes making health care more affordable and costs more predictable.

We can do this by passing Association Health Plan legislation that would allow small businesses to pool together to purchase health coverage for workers at lower rates.

We also need to promote and expand the advantages of using health savings accounts—how they can give workers more control over their health insurance and costs.

And we've got to reduce frivolous and excessive lawsuits against doctors and hospitals. Baseless lawsuits, driven by lottery-minded attorneys, drive up health insurance costs for workers and businesses.

The need to reduce the lawsuit burden on our economy stretches beyond the area of health care. That's why President Bush has proposed, and the House has approved, measures that would allow more class action and mass tort lawsuits to be moved into Federal court—so that trial lawyers will have a harder time shopping for a favorable court.

These steps are the second key part of the President's pro-jobs, pro-growth plan.

Ensuring an affordable, reliable energy supply is a third part.

We must enact comprehensive national energy legislation to upgrade the Nation's electrical grid, promote energy efficiency, increase domestic energy production, and provide enhanced conservation efforts, all while protecting the environment.

Again, we need Congressional action: we ask that you pass legislation based on the President's energy plan.

Streamlining regulations and reporting requirements are another critical reform element that benefit small businesses, who represent the majority of new job creation: three out of every four net new jobs come from the small-business sector! Let's give them a break wherever we can so they're free to do what they do best: create those jobs.

Opening new markets for American products is another necessary step toward job creation. That's why President Bush recently signed into law new free trade agreements with Chile and Singapore that will enable U.S. companies to compete on a level playing field in these markets for the first time—and he will continue to work to open new markets for American products and services.

Finally, we've got to enable families and businesses to plan for the future with confidence.

That means making the President's tax relief permanent.

Rate reductions, the increase in the child tax credit and the new incentives for small-business investment—these will all expire in a few years. The accelerated rate reductions that took effect in 2003 will expire at the end of this year. Expiration dates are not acceptable—we want permanent relief.

The ability of American families and businesses to make financial decisions with confidence determines the future of our economy. And without permanent relief, incentives upon which they can count, we risk losing the momentum of the recovery and growth that we have experienced in recent months.

The tax relief is the key stimulus for increased capital formation, entrepreneurship and investment that cause true economic growth.

Budgets work better when the economy is growing . . . because a growing economy means more jobs. That means more tax revenue . . . which leads to all-important deficit reduction.

Which leads me to my next area of discussion.

Overview of the Budget Deficit Situation

Let me be clear on this:

- The budget deficit that we face today is unwelcome.
- It needs to be addressed.
- The President's budget calls for cutting the deficit in half over the next five years.
- While addressing the deficit, we must remember that it is not historically overwhelming.
- It is understandable, given the extraordinary circumstances of recent history. Remember that we are fighting a type of war that we have never fought before. We are fighting an enemy that requires a much broader variety of government resources than anything we've ever confronted. And we began this fight when we were economically wounded.

What's most important to remember is that we will be able to fight this war and climb out of the deficit.

We can manage this deficit, and we can cut it in half over the next five years by controlling spending and growing our economy.

Three-quarters of the discretionary spending increases during this Administration have been related to the global war on terror and the response to 9/11.

Meanwhile, President Bush has reduced the rate of increase in non-security-related spending every year he has been in office: to six percent in 2002, five percent in 2003, and to four percent in the current fiscal year.

For Fiscal Year 2005 we're going to reduce the rate of increase in non-security spending to less than one percent.

Total annual appropriated spending will increase by less than four percent next year.

Holding the line on spending—while ensuring that our country is safe and our most important needs, from jobs to health care, are met—will achieve deficit reduction when coupled with all-important economic growth.

Again, this is why the budget cannot be discussed separately from the economy. Separating the two is what gets government into trouble.

Make no mistake; President Bush is serious about the deficit.

We see it as unwelcome, but manageable . . . and we intend to achieve: rapid deficit reduction.

A recent CBO report raised concerns about this matter, and it is important to note that recent and short-term projected budget deficits and the existence of long-term deficits for Social Security and Medicare are not connected.

These unfunded long-term net obligations are also a concern, and ones that this Administration has highlighted and invited bipartisan dialogue on.

The President has been clear on this: younger workers should have the opportunity to build a nest egg by saving part of their Social Security taxes in personal retirement accounts. His vision for the program is economically wise, and it is that we should make the Social Security system a source of ownership for the American people.

Conclusion

Are we dedicating ourselves to increased spending on the war on terror and protecting the homeland? The answer is yes. Yes, without sacrificing other necessities.

And that is because a nation must be safe in order for it to be prosperous.

A nation of entrepreneurs must also be able to plan, and to be relieved of as many burdens as possible, in order to be prosperous.

All of the budget issues and policy proposals that I've discussed today may seem, at times, to be a complicated recipe. But these ingredients combine to make something that is simply put, and is of utmost importance—and that is economic growth.

Growth is the key to every economic problem we confront. That's why we urge other countries to institute pro-growth policies. It's good for them, and it's good for the global economy that we are a significant part of.

Thank you for hearing my testimony today. I'll be happy to take your questions now.

Chairman THOMAS. Thank you very much, Mr. Secretary. You indicated that in the second half of calendar year 2003, the economy was clearly on the uptick. We obviously moved significant legislation in 2003. Some people have said that that was a happy coincidence. Can you folks perhaps present a more specific directed relationship other than a happy coincidence to what we did in taxes, especially in the risk capital areas and the turnaround of the economy? Is there a closer cause-and-effect relationship than coincidental?

Mr. SNOW. Mr. Chairman, there is nothing coincidental about that relationship. It is a direct causal relationship. The maybe best evidence of that is simply to look at the equity markets. The equity markets are up some 26 percent from the time that that legislation began to be—appear that it would pass and the end of the year; restored some $3 trillion in net worth to the American economy. That is a direct reflection of the fact that you lowered the taxes on capital gains and that you lowered the taxes on dividends, lowered the taxes on equity capital, and the market capitalized that. The market saw that as something that would raise equity values in the future and earnings in the future, and they therefore capitalized it.

I also would say that the spurt to the economy, Mr. Chairman, through the reduction in marginal tax rates, which affected so many small businesses, of course, the expanded expensing rules going from $25,000 to $100,000 had a clear and direct effect on the spending patterns of small business and the hiring patterns of small business, who have begun to expand. Now we see that larger enterprises themselves in the third quarter and the fourth quarter became more confident as they saw a stronger underlying economy, and we saw a very strong pickup in capital spending, 9 percent I think in the third quarter and comparable in the fourth quarter, which would not have happened unless the businesspeople of this country saw a more buoyant and expanding economy in the future and they invested to get ahead of that. So, I think there is a direct relationship, unmistakable direct relationship.

Chairman THOMAS. We saw significant increases in productivity, but, of course, we haven't seen similar increases in jobs. Clearly, you can only juggle continued productivity until you reach a point where you have to add someone. What is it that we could do based upon the President's budget that would probably be the single most important thing to create comfort level for those folks who are moving beyond juggling productivity and deciding to add one or two more employees? What is it that we could do to give them a comfort level to add that additional employee and therefore affect positively the question of jobs?

Mr. SNOW. I think the single most important thing you could do, the Congress could do, the Committee on Ways and Means could do, is remove the uncertainty about the permanence of the tax reductions that were put into effect last year. Uncertainty exacts a price and makes businesspeople and individual taxpayers far less willing to go spend money, to make investments; and making sure that small business realized they had lower tax rates, making sure that the additional $75,000 of expensing was available, allowing average taxpayers to know that they really did have that $1,500 or $2,000 of additional money coming in not just this year, but the year after and the year after and the year after, that makes people feel better. It makes them—when they feel better about their economic circumstances, they spend more, and that is what makes this economy go.

Chairman THOMAS. Thank the gentleman. Mr. Rangel wish to inquire?

Mr. RANGEL. Thank you. I don't know what small comfort, Mr. Secretary, the billions of people that are without work is going to get from your statement, but what I am concerned about is two major things with my limited time, and that is it appears as though the projected growth for the defense allocation is 7 percent, and they have received a 7-percent increase in your budget. What really bothers me is that the Veterans Affairs budget, they, too, have a projected growth of 7 percent, but only a 2-percent increase has been allocated.

Now, most every Member that I talked with have had problems with providing health benefits to our veterans, many of the hospitals and health institutions being closed and consolidated. At a time where we have over 2,000 men and women that have been wounded and harmed in Iraq in our hospitals throughout these United States, could you share with me the thinking as to why a priority hasn't been given to our veterans?

Mr. SNOW. Mr. Chairman, I think I would reject the premise that a priority hasn't been given to our veterans. This is a matter that Secretary Principi could address much more—in a much more detailed way than I have. I sat through the budget deliberations of many, many Cabinet agencies, and I think if you ask Secretary Principi, who is devoted to the welfare of veterans, that he would say this was a reasonable effort in this budget to meet the needs of veterans.

Mr. RANGEL. If the projected growth, average growth, from 2001 to 2005 in the budget presented to the Congress on page 368 is 7 percent, and in the case of defense you met the average growth, there is a 5-percent reduction if you only give them 2 percent. So, I—it is going to be painful to try to explain at a time where veterans' hardship has dramatically increased because of the war, but clearly, there is no way to say that it is given a priority when you haven't met the growth needs of this particular agency. So, I won't belabor that because the facts in your budget speaks for itself.

Do you believe that after 2005 we will have a military obligation in Afghanistan and Iraq, and that will be necessary to put and leave troops there? The second question, since I know you have got to agree that we require a presence there after September 30, 2004, why, in God's name would the cost of that just be omitted from the budget submitted to the Congress?

Mr. SNOW. Congressman Rangel, on that the answer is clear, because the costs aren't known at this time——

Mr. RANGEL. Oh, Mr. Secretary, you——

Mr. SNOW. Not being known, it is impossible to lay them out with any precision. They would be—they would be a cost that will—if, in fact, we come forward, and there has been some indication that we would need to, the Administration has been clear on that, that we could give you a better number on once we are much closer to the real facts there.

Mr. RANGEL. Well, I know this is awkward for you, Mr. Secretary, because you have been such a successful businessman, so I won't belabor that because it only, I assume, would be embarrassing, but I don't know how many other future obligations that we know we are going to incur was omitted because we don't know the exact number. I do know we have a similar problem with the alternative minimum tax (AMT) relief and other things that will be coming before this Committee. I do hope that we can get some better answers to that. So, I would conclude my questioning. I think my time has run out, Mr. Chairman.

Chairman THOMAS. Thank you very much. The gentleman from Illinois, Mr. Crane, wish to inquire.

Mr. CRANE. Thank you, Mr. Chairman, and I welcome you, Mr. Secretary, to our meeting of the Committee. Question came up about unemployment rates, and my understanding was that December was 5.7 percent; is that correct?

Mr. SNOW. That is correct.

Mr. CRANE. That's lower than the decade of the 1980s or the 1990s or even the 30-year historical average.

Mr. SNOW. That is correct, Congressman Crane.

Mr. CRANE. Very good. There has been a lot of focus on it, and I think it has misrepresented the condition of the economy today. I am concerned about unemployment, as everybody is, but I think we are making significant progress, and we have got to be sure that we don't divert that.

One of the things that is of concern to me, profound concern to me, and I think we have got bipartisan concern on it, is the World

Trade Organization's (WTO) ruling on our extraterritorial income (ETI) tax provisions and the fact that we have got to take some action on that as quickly as possible. The deadline is March 1st before we can anticipate retaliation beginning by the European Union (EU) against our exporters. This is something that I think we can replace with just a lowering of the corporate tax rate which, I have supported. I would like to emphasize that is for domestic manufacturers, whether you are an exporter or not an exporter.

I hope that the Administration will be helpful in this endeavor because of that clock ticking. One of the fears I have is if, God forbid, we don't take corrective action before March 1st, and they were to begin retaliation against our exporters over there, you could start a trade war internationally that would be very negative. Could you offer some insights?

Mr. SNOW. Well, I am in broad agreement, Congressman, with what you say, particularly in terms of the need to act. It is critical that we act and act soon so as to avoid those sanctions. I know both the House and the Senate have been active in considering it and have come up with somewhat different approaches.

The President is committed, the Administration is committed to being in compliance with WTO. I think we all acknowledge that is important. That is critical. We have to be there. We are in the forefront of having created WTO. We ought to be in compliance with its rules. It is important, though, that as we get into compliance, we do so in a way that doesn't prejudice the interests of U.S. businesses. I know that is a matter that is very much on the mind—your mind and the mind of the Chairman and others on the Committee. The Administration pledges to work with you to try and find answers to these—to this pressing, pressing issue.

I would agree with your underlying premise that the existing tax system on U.S. corporations engaged in the global trade arena is prejudicial and should be addressed.

Mr. CRANE. Mr. Secretary, under current law the tax cuts passed in 2001 and 2003 are scheduled to sunset, some as soon as the end of this year. What effect does this looming tax increase and the uncertainty of the Tax Code have on the growth of the U.S. economy? What would likely happen if we failed to extend the 10-percent bracket, the marriage penalty tax relief and other tax relief provisions passed in 2001 and three scheduled to expire this year?

Mr. SNOW. Well, I think that would be a shame if that happened because millions and millions of people at the lower end of the income scale, who are the beneficiaries of the action the Congress took last year under the leadership of this Committee, would find themselves paying much higher taxes. They would lose the benefit of marriage penalty elimination. They would lose the benefit of the accelerated child credit, the expanded child credit, 10-percent bracket. Failure to address permanence for those provisions would exact a very sizable price to the people least prepared to pay that price.

Mr. CRANE. Well, and also is it not correct that during a time when you have got economic uncertainty, to raise taxes is as counterproductive as it can be?

Mr. SNOW. You can't think of anything more harmful to an economy that is coming out of a—the difficulties this economy has had and beginning to show good progress than a tax increase. It could halt this recovery in its tracks.

Mr. CRANE. Thank you, Mr. Secretary.

Chairman THOMAS. Thank the gentleman. Gentleman from California, Mr. Stark, wish to inquire?

Mr. STARK. Thank you, Mr. Chairman. Mr. Secretary, welcome to the Committee. Perhaps you could help me out. I am having trouble keeping track of numbers. The Administration seems to have arranged to have a couple of hundred American soldiers killed looking for weapons of mass destruction, which were there a year ago but aren't there now. We had a $400 billion Medicare bill which now appears to be $530 billion. In your estimate of the cost of the HSAs, you are suggesting that it will cost $7 billion over 5 years. Now, the Joint Committee on Taxation tells me that it is going to cost $6.7 billion over 10 years.

What is your 10-year estimate for the recently enacted HSA program? If I suggested it was $16 billion, would anybody in the row behind you care to disagree with that?

Mr. SNOW. I am told that the number—were you asking through 10 years?

Mr. STARK. Yes.

Mr. SNOW. Through 10 years, I think your number is approximately right. It is higher, of course, through 14 years.

Mr. STARK. So, we have got Joint Committee on Taxation at $6.7 billion over 10 years, and you are at $16 billion over 10 years.

Mr. SNOW. I think that is approximately right. We are—I don't have that number up.

Mr. STARK. Can you give us an idea of what the difference is there, why the difference?

Mr. SNOW. I suppose it has to do with our optimism on how successful this program will be.

Mr. STARK. I see. Okay. Well, let's talk about another program then that may be affected or impacted by the HSAs. I believe it is correct that the HSAs will reduce the Medicare part A payroll taxes. Given that your score is even higher than that of the Joint Committee on Taxation, could you give us an idea of how much of a reduction you see in the health insurance payroll taxes as a result? I know, because you are a trustee of Medicare, you would have some idea of how much are you going to report to us this will damage Medicare solvency. Could you explain to us a little about that?

Mr. SNOW. Congressman, the effect on Medicare solvency will be quite modest relative to the funding problem that Medicare has.

Mr. STARK. Well, because we don't agree on a funding problem, what—how modest; 1 year, 2 years, 3 years?

Mr. SNOW. In terms of taking the time in when the funds are exhausted? Is that your question?

Mr. STARK. Well, we generally refer to how long the Medicare Trust Fund is solvent, and does it change that solvency point by a year, 2 years, 3 years.

Mr. SNOW. I would have to check that. As I say, I don't think it would have a major effect on the solvency period. There are—because it is so small relative to the total things that are driving the Medicare Trust Fund.

Mr. STARK. Well, would it surprise you if we had heard that you as a trustee, not as the Secretary of the Treasury, you are going to report to us shortly that this is—that the solvency is going to be shortened by 2 years?

Mr. SNOW. I think this would be high, frankly.

Mr. STARK. Well, I certainly hope you are right. Although, I am sure we will get a report at 1 year and 2 years and be left hanging as to figure out what exactly is the correct amount. Thank you, Mr. Chairman. Thank you Mr. Secretary.

Chairman THOMAS. Thank the gentleman very much. Gentlewoman from Connecticut wish to inquire?

Mrs. JOHNSON. Thank you, and welcome, Mr. Secretary. It is a pleasure to have you before us.

This is a difficult time, and difficult times always involve lots of controversies. I join my colleague from Illinois in urging our attention to the problems that we have with Europe and the need to pass a bill that not only will meet our responsibilities in the WTO, but will also give our manufacturers and the American businesses that have to compete in the global economy a more level playingfield from which to compete. While you do mention the research and development tax credit in your proposals, you don't line out any proposal, and I think it has to be really aggressive.

So, I would like your comment, and then I have two short comments that I want to make and get your response.

Mr. SNOW. Well, as I said, we are committed.

Mrs. JOHNSON. Your microphone, please, Mr. Secretary.

Mr. SNOW. Sorry. As I said earlier, we are committed to working with the Congress to bring the issue to a conclusion and within a timeframe that avoids the consequences we otherwise might face. That would be a shame if we took it that far. The principles here are we need WTO compliance, and we need it in a way that doesn't prejudice the interests of U.S. business. U.S. business is already being prejudiced, in my view, by the operation of the international tax system. So, some reform of the international tax rules, if it could be incorporated in the legislation, would be desirable.

Mrs. JOHNSON. Thank you. As to the savings proposals that you have in your bill, in my estimation, all savings are not equal. I think the public responsibility and the public interest is that you be financially secure in your retirement. So, we want to encourage you to save so you will have some income to pair with Social Security to assure your financial security. Consequently, I think we ought to put more incentive on those savings that you are willing to convert to some kind of annuity or stream of income as opposed to just that money that you are willing to set aside to buy a yacht or a big home or whatever you want to in your retirement.

So, I think, given the long-term budget protection—projections that would confront any Administration of either party, I think thinking about the use of retirement savings and aligning our incentives with those uses that are more in the public interest is imperative at this time. Do you have any comment on that?

Mr. SNOW. Well, I think that these proposals that we put forward include through the RSAs and the employer retirement savings accounts (ERSAs) clear incentives for additional savings for retirement. They simplify those plans. They encourage small business to establish through these custodial accounts, which simplify for the small business establishing retirement accounts—simplifies all that. I think your issue really is with the LSAs.

Mrs. JOHNSON. Bottom line I think——

Mr. SNOW. The lifetime savings.

Mrs. JOHNSON. Determining simplification and merging and merging vehicles, but I think we really do have to look at lifetime streams of income.

Last, I won't ask you to respond to this so that we can move on to others, but as important as permanency is, and it certainly is important, if we direct our attention to those things that expire soon and couple with it a real plan to repeal the individual AMT, then I think we will couple reform and simplification with the reform involved in permanency in a way that will be very, very good for families and middle-income earners, and that plan is, I think, imperative today. Thank you.

Mr. SNOW. Right. Right. On that I would just object that while we have patched the AMT for the 2005 budget, we have indicated that—in fact, the President has directed the Treasury to do a study on the AMT, and hopefully that study would lead to some proposals that could be included in the next year's—in next year's budget. That is such a complicated subject, and it touches the regular income tax in so many ways that it is hard to conceive how you could deal with the AMT problem as you are suggesting without also coming forward with reforms of the regular tax system. My hope would be that we could do that in a revenue-neutral way.

Chairman THOMAS. Thank the gentlewoman. Gentleman from California, Mr. Matsui, wish to inquire.

Mr. MATSUI. Thank you very much, Mr. Chairman. Mr. Snow, thank you for being here today. We really appreciate it.

I would like to discuss with you the whole issue of Social Security. On page 5 of your written testimony in the last paragraph, up to the third to the last paragraph, you talk about the President stating he has been clear on this: younger workers should have the opportunity to build a nest egg by saving part of their Social Security taxes in personal retirement accounts. Back in January 2001, when the President raised this issue in his State of the Union address, of course we had projected at that time the $5.6-trillion surplus. Then in December of that same year, the President's commission came up with three recommendations, and all three of the recommendations actually were fiscally sound in the sense that it all costed out. All three either had cuts in benefits, tax raises, or they had borrowing from the general fund or from the public in terms of paying the transition costs.

The President, in his campaign and most recently, has stated that he wants to see private accounts, future—current retirees and those about to retire would not see any loss of their benefits, both the survivors benefits, disability benefits and obviously retirement benefits, and at the same time there would not be any tax increases by way of payroll taxes or general fund borrowing. In view of the fact that we will anticipate deficits even if they do begin to reduce itself, the trend line begins to reduce itself on these deficits, we will still not have a surplus. Most estimates are that if you take 2 percent of payroll or 18 percent the payroll tax and dedicate that to personal accounts, or private accounts, this undoubtedly will drain the system even further than it is today. How will the President be able to follow through on all these commitments about no increase in taxes, no borrowing and making sure that current and future retirees are able to maintain their benefits given the fact we no longer have the surplus and the transition costs?

Mr. SNOW. Congressman, the issue you raise is there whether we have the personal accounts or not. The system today is simply not financially self-sustainable, and the argument for the personal accounts is that it would create a greater control on the part of people over their retirement income.

Mr. MATSUI. If I may correct you, if you don't mind.

Mr. SNOW. Sure.

Mr. MATSUI. I think a better way—and I really want you to finish your comments. However, your premise I think, is incorrect. I think a better way to put it is that personal accounts or private accounts do not actually go in the direction of solving this 28 percent of payroll—28 percent of benefits cut that in 2041 we will see unless we take some action. Private accounts will have nothing to do with that. Private accounts, as you know, it is a legitimate issue to debate, but private accounts will not help you or me or anyone else in the public solve the issue of the deficit in the Social Security system.

Mr. SNOW. What it does——

Mr. MATSUI. I think you know that.

Mr. SNOW. Yes. Well, I didn't get a chance to finish my——

Mr. MATSUI. I am sorry.

Mr. SNOW. Yes. What the personal accounts do is change the nature of the Social Security system in a way that that is beneficial to people, I think——

Mr. MATSUI. Maybe.

Mr. SNOW. Because it becomes less of an intergenerational transfer and more of a wealth accumulation concept. It continues to have, of course, the guaranteed benefits inside of the system, the promised benefits, the unfunded benefits, unfortunately, inside the system. It creates in addition to that, through these private accounts, a wealth creation or a wealth accumulation process through those accounts.

I would agree with you, the underlying problem of Social Security remains its lack of financial solvency.

Mr. MATSUI. Well, where were you going to get this transition money to do what the President has said; no tax increase, no borrowing, and at the same time no cuts in benefits for current and future retirees, and at the same time allow individuals to have 18 percent of the payroll tax go to private or personal accounts?

Mr. SNOW. Congressman, as I said, the issue is there whether you have transition to personal accounts or transition to something else. There is a gap that has to be met. I am agreeing with you.

Chairman THOMAS. The gentleman's time has expired.

Mr. MATSUI. Okay.

Chairman THOMAS. The gentleman from New York, Mr. Houghton, wish to inquire.

Mr. HOUGHTON. Yes, thank you, Mr. Chairman. Mr. Secretary, great to see you. Thank you very much for the great job you are doing.

I have two questions. One is the on the AMT, and the other is the value of the dollar. The AMT is creeping up on us, and there are lots of things such as Social Security, Medicare and things like that that we are worried about, but this is one of them. I understand the cost of fixing this, if fix it we must, is around $700 billion, and the question is how are we going to handle that?

The second thing—we get pretty paranoid about our own economy, although we have got the greatest country, and we have got a very booming economy now. There is something going on overseas with the value of the dollar, and I don't understand that. Are they saying something to us that we ought to hear?

Mr. SNOW. Well, let me start with the AMT. The estimates vary somewhat on what the continuing patches would cost, what the loss revenues to the government from continuing patches would be. Some number like the one you are talking about is in the ballpark, and it is a big number. That is why I say it is important that we confront, we deal with it. It is a serious issue, and it has to be addressed, and I think it has to be addressed in the context of the whole tax system because of the interplay between the two. The home mortgage deduction, charitable deductions, a whole range of other deductions are directly affected by the AMT, and they are going to disappear. So, the effect of this is a fundamental change in the existing tax system.

I would hope that we would be before you in a year's time with a proposal to deal with the issue, and I would hope to keep the Committee informed in the process. I would hope we could do it in revenue-neutral or as close to revenue neutral as possible. My main point is I think it requires us to think about the whole tax system, not just the AMT.

On the question of the dollar, and the euro, of course, that is a subject I say very little on except to emphasize our policies, which I have reiterated over and over again. We favor a strong dollar. We think it is good for the country, but we think the value of currencies, not just the dollar, but the dollar vis-a-vis other countries, the exchange value of currencies is best set in open, competitive markets, so we encourage flexibility.

The virtue of flexibility is it allows a healthy adjustment process to occur in the world's economies. That is why we are suggesting to the Chinese they would benefit from flexible—from a more flexible currency. It is why we take that message to all corners of the world, because the failure to allow the currency to adjust builds up pressures, imbalances inside an economy that put the economy at risk. I think greater flexibility is a healthy thing and a good thing to encourage appropriate adjustment processes in international currency markets.

Mr. HOUGHTON. I guess the genesis of my question has been such a precipitous fall in such a short period of time that it may be saying something to us that we ought to hear.

Mr. SNOW. The subject of the relative value of the U.S. currency versus other currencies is a subject I stay away from because it only can cause mischief. What we want to see, of course, is flexible exchange rates, and the play out of demand and supply forces on a global basis. We think that is the best formula for getting the right results for our economy and for the other economies of the world.

Mr. HOUGHTON. Well, certainly I wouldn't want to be accused of causing the Secretary of the Treasury mischief. Thank you very much, Mr. Secretary.

Mr. SNOW. Thank you.

Chairman THOMAS. Thank the gentleman. Gentleman from Michigan, Mr. Levin, wish to inquire?

Mr. LEVIN. Thank you, Mr. Chairman. Welcome Mr. Secretary. This Administration and President Bush together already have a growing credibility gap with so many of the American people, and now this budget I think is only going to add to that credibility gap. I went back and looked at the statements of the President and yourself, just a few of them. In 2001, the President said, my budget protects all $2.6 trillion of the Social Security surplus and for Social Security alone. That turned out not to be correct. In the next year, after September 11th, he said, in quotes: "Our budget will run a deficit that will be small and short term."

I wonder if anybody in the world can call $500 billion small. You were here last year, and you said the tax cut plan, I quote, "will create hundreds of thousands of additional jobs by the end of this year. About 500,000 additional jobs by the end of this year." The truth of the matter is in 2003, private sector employment fell, and manufacturing jobs of 516,000 were lost. In that same appearance you said: no, we are not in a structural deficit. Well, if you add making permanent the tax cuts, the Congressional Budget Office says that adds a trillion dollars to the deficit if you look at it over 10 years. Then you refer to the AMT. The Urban Institute estimates if you make the tax cuts permanent and repeal the AMT, that's another trillion dollars. I don't know how that is anything but structural. Then you say in your testimony: unemployment claims are falling, indicating improvement in the labor market.

So, I want to ask you this: a recent report indicates that the number of people who exhausted their regular unemployment benefits last month and are out of work, 375,000 added to the 9 million, plus another million who are underemployed. According to that estimate, when you project that through June, close to 2 million people will be laid off, looking for work and out of work. So, can you tell me, with those data—those people; they are not just statistics—375,000 in 1 month alone exhausting their benefits, projected to be 2 million, why this Administration will not support the extension of the Federal extended benefit program when there are $20 billion in the trust fund that can be used for this purpose?

Mr. SNOW. Congressman, this Administration has been pretty responsive on that subject, I think three times now has supported, has supported extension.

Mr. LEVIN. How about now?

Mr. SNOW. Well, I said when—when this issue has come up before, the Administration has responded and has supported the extensions.

Mr. LEVIN. Will you support it now? It has come up. It has been raised in the House, it has been raised in the Senate. I just want you to answer the question.

Mr. SNOW. Well, that is a question for the President to answer, not from me. In the past when that issue has come up three times, the Administration three times has supported extension. If I could just take a minute to——

Mr. LEVIN. Let me just ask you, what is the Administration's policy—we have raised it time and time again—about the extension of the Federal extended benefit program? Are you for it, or are you not? The President has not supported any of the efforts. So, you—just you, the Secretary of the Treasury, you can't buck it to the President—what is the Administration policy on the Federal extended benefits program?

Mr. SNOW. Our policy is to do those things, Congressman—as I think you know—to do those things that create permanent jobs and that create the incentives for permanent jobs. I would dispute your numbers on the jobs. There were actually some 250,000 jobs created in the United States in the last 4 months of last year after the tax bill was passed.

Mr. LEVIN. What was the total lost in 2003 of jobs if my figure is wrong?

Mr. SNOW. The private sector estimates that a couple million jobs will be created this year.

Chairman THOMAS. The gentleman's time has expired. Does the gentleman from California Mr. Herger wish to inquire?

Mr. HERGER. Thank you, Mr. Chairman. Mr. Secretary, I want to commend the Bush Administration and you for recognizing a serious problem facing our Nation, a very low rate of personal savings. Considering that personal savings as a percentage of disposable income was 10.9 percent in 1982, and as of 2002 the rate of personal savings in America had dropped by almost two-thirds to 3.7 percent of disposable income, one of the lowest savings rates in the industrialized world, could you please comment on the importance of savings for our country's future and how the Administration's proposals, LSAs and RSAs, are designed to make it easier for individuals and families to save?

Mr. SNOW. Thank you very much, Congressman. I appreciate the chance to talk about that. The subject is close to my heart. You are absolutely right, our savings rates are too low in the United States. The personal savings rate has actually fallen below 2 percent, and we need to do better. The current tax-preferred savings devices are well intentioned, but they are so complicated, they are so difficult to understand, they are so—they exact such a price if you want to take the money out early or use it for another purpose that people aren't inclined to save as much as they otherwise would in the first place.

The people who are most affected by this—and I think that is important to focus on—are lower, lower income and middle-income people because they don't have that surplus, they may need that money. However, if they are restricted in how they can use it, they don't put it in in the first place. They don't have tax accountants and tax lawyers to help them figure out how to comply with all the current savings vehicles that are enormously complex.

So, while I give great credit to Members of this Committee and others who have been in the forefront of trying to advance this issue of simplification and making more savings vehicles available, I think the time has come when it would make sense to streamline the whole thing and create the three accounts we talk about as the principal accounts. Our studies, our analysis indicates that would significantly increase the total volume of savings in the country and particularly affect savings on the part of people at the lower income levels.

Mr. HERGER. Thank you very much.

Chairman THOMAS. Does the gentleman from Maryland wish to inquire?

Mr. CARDIN. Thank you, Mr. Chairman. I do. Let me thank the Secretary for being here and for his commitment and his work for our Nation.

I must tell you, though, I am very disappointed with the Administration's budget as it reflects the national deficit and the growing debt. I remember when I was first elected to Congress and I had the good fortune to have you in my district as an advisor on fiscal issues, and I always remember your advice to me. You said, balance that Federal budget. That is the best thing we can do for our economy. You were a real hawk when trying to balance the budget at that time, and we had large deficits when I was first elected to Congress. Now we are being presented a budget that has the largest deficit in the history of this Nation.

I agree with the Administration that this Congress should not start placing blame as to how we got here, but we have got to work to reduce that deficit, and it seems to me the way to do that is restraint, but not just on the spending side, but also on the revenue side. The former President Bush showed some courage when he helped us turn the path from deficits back into surplus or back into balance and surplus, followed by President Clinton, but we don't see that coming forward. We see discipline, so-called, on some parts of the spending, but not all, and then another series of tax proposals that, according to the Budget Office, will hemorrhage another $2 trillion in revenue over the 10-year period.

So, I just want to express myself that I think there is many of us who want to deal with this deficit, but it is very difficult to do it when you have a selective discipline and you are not willing to consider the entire package to bring our budget back into balance.

I want to follow up on Mr. Levin's point, though, with the unemployed, and Congressman Crane's point. We can use a lot of ways calculating how many people are unemployed today, and the insured unemployment rates are different than those people who are unemployed. As you know, in the last couple of months several hundred thousand Americans have given up and aren't seeking employment, and, therefore, they are no longer counted in the unemployed rates. The one thing we know is that there are 3 million fewer private sector jobs today than there was a few years ago. We also know that those people who are returning and finding employment are finding employment at lower wages than they were when they were employed originally. We also know we had the money in the Unemployment Trust Fund.

I guess in your answer to Mr. Levin you suggest that, well, only the President can make that decision is probably good news because maybe it is an open issue on the extension of Federal unemployment benefits, and I hope that is the case. However, I do note that in the President's budget there is no money available for the extension of Federal unemployment benefits. I can tell you, at least what I learned in school in economics, that if you extend help to those people who are unemployed who can't find employment, that is a good remedy for trying to improve the economy. Their dollars get spent pretty quickly and help the economy grow, and that is a more important aspect to economic growth than anything else you can do.

So, we had a hearing before our Committee, and there was genuine agreement among all the witnesses, the economists, from the far left to the far right that unemployment benefits during this period of time is in our Nation's interest. So, I would just urge you to take this issue up, try to work with us. As we are looking for a balanced approach as far as fairness is concerned, those people who can't find jobs today through no fault of their own are being left out in the cold. I appreciate your response to any of the points I raise.

Mr. SNOW. Right. Congressman, first of all, let me say that, as I said before, that the Administration has been responsive in the past three times it has come up.

Second, on the issue of jobs, jobs come from growth, and we have got to keep the growth going in the economy. There is no doubt that the economy is growing, growing at a pretty good rate. We want to sustain that and making the tax relief permanent is a way to send the signals that will allow the good growth rates to be sustained.

Finally, the job market is improving. The initial unemployment insurance claims are coming steadily down. Aggregate hours worked has been rising. Temporary work has been rising. Those are good leading indicators, precursors of a pick-up in the job market. I follow closely the private sector surveys and the blue chip surveys, so-called. Private economists, their forecasts all indicate a much stronger labor market in the months ahead, somewhere between 150,000 and 250,000, 300,000 jobs a month. That is what you would expect. As the economy's recovery is sustained, jobs will come back.

Mr. CARDIN. Thank you. Thank you, Mr. Chairman.

Chairman THOMAS. Does the gentleman from Texas Mr. Johnson wish to inquire?

Mr. JOHNSON. Thank you, Mr. Chairman. Thank you for being here, Mr. Secretary. I am glad to see that you mentioned the association health plans. I think those are important, and hopefully we can twist the other body's arm a little bit and get them done. I think we look forward to working with you to make that happen. As you know, I am on that other Committee, too.

I am glad to see the savings initiatives for the LSAs, RSAs, and ERSAs, whatever you want to call them, are back in your budget this year and have been moved to the top of the list in your blue book. As you know, Senator Thomas and I wrote a letter to you about a week ago, a couple weeks ago, to let you know that we are hoping they will be introduced in bill form in the near future. We want to let people have the opportunity to save for their needs, wants and dreams without being penalized. It only makes sense that when we tax something, we get less of it, and our tax policy currently punishes savings. You made the statement that we have a low savings rate, and you are right. I think it is right at zero, if I am not mistaken, and we need to curb that epidemic.

The only significant changes that I see that you have made in these proposals are the contribution limit has been set at $5,000, and that the ERSA section, there is a simple ERSA for employers with fewer than 10 employees. Both of these are great changes, I think. I hear some criticism from some of these proposals, and I would like you to talk to me about them, if you could.

I wonder if you could explain to me if there is any difference between a Roth individual retirement account (IRA) once it is fully phased in and an LSA, except that the LSA has no income cap and no 5-year holding period. Can you tell me what the fuss is about eliminating an income cap and a 5-year holding period? I think these are the only differences between the Roth and the LSA, and I think Roth IRAs are really popular with the American public today.

Mr. SNOW. Congressman, that is what we have done in effect is the contribution is with after-tax income, as with a Roth IRA. Then there is the tax-free buildup inside—inside of the LSA, and that is a very nice feature, and then it is at the end subject to the tax on all that buildup. That is the Roth IRA, except that now we have taken off the eligibility limits and allow people to draw the money down if they want to use it, so it does become a LSA with broad usage.

Mr. JOHNSON. After 5 years.

Mr. SNOW. After 5 years. I think it is going to attract a lot of additional savings. There is a dispute on that, there is a debate on that. Some people say it will simply replace savings; people will take money out of other accounts and put them into this account. The studies we have indicate that, quite the contrary, that this will lead to a total increase in the savings of the United States. You are absolutely right. I responded in my letter back to you and Senator Thomas that we have savings rates that are too low, and we need to increase our savings rates very much in this country.

Mr. JOHNSON. Thank you for that comment. I appreciate that. Why do you think lower income individuals would be more likely to use an LSA?

Mr. SNOW. Lower-income people don't save today very much. Lower-income people, not having the surplus available to them of wealth to draw on, need to—feel the need to call on their savings for emergencies that come up and don't have any other source to draw on. So, they are reluctant to put their money into an account where they can't draw it out, and that is very understandable.

Mr. JOHNSON. One other question, if I could. Could you give me your take on private access bonds as far as transportation is concerned?

Mr. SNOW. You are talking here of these special bonds?

Mr. JOHNSON. Yes, or construction.

Mr. SNOW. Construction bonds? I am not particularly enamored of them, as you might imagine, Congressman, if they use the full faith and credit, if you are talking—we are talking about the same thing. I have sent a letter to Congress indicating we on the highway bill would not like to see special bonding bills to fund highway spending. I think what you are talking about is different and is actually in the budget, if I understand the reference you made.

Mr. JOHNSON. No, I was talking about highway spending.

Mr. SNOW. I don't think you are talking about the same thing that I am referencing. Let me just check.

Chairman THOMAS. The gentleman's time has expired. I believe, based upon the Secretary and the Secretary of Transportation's letter, there may be a number of letters exchanged over what exactly is meant in the initial letter.

Mr. JOHNSON. Right, Mr. Chairman.

Mr. SNOW. That is a fair comment.

Chairman THOMAS. The gentleman from Washington, Mr. McDermott——

Mr. MCDERMOTT. Thank you, Mr. Chairman.

Chairman THOMAS. May inquire.

Mr. MCDERMOTT. Thank you, Mr. Chairman. As a representative of an Administration who has no credibility whatsoever in international affairs, given weapons of mass destruction and al-Qaeda and so forth, it has gotten to the point where if the President said it was snowing outside, everybody would get up and go to the window and look. As the Secretary of the Treasury, you have set a record of three tax cuts and the largest deficit in the history of the country. I want to read a quote to you and ask you what you think about it.

The budget deficit puts a hole in the buck of every American every day of their lives. It threatens the very foundations of our culture, and we must seize and act upon this historic opportunity to solve this, the most pressing issue facing the country. Do you still stand by that quote?

Mr. SNOW. I was referencing—you are quoting from something I said back in——

Mr. MCDERMOTT. Do you want to turn the microphone on so it can get on television?

Mr. SNOW. Congressman, thank you for giving me that quote. It comes from me; it was a quote I made in the mid-1990s when I was very concerned about running a structural deficit when we had full employment. The deficits that we have seen here are the result of high unemployment, of a weak economy, of a recession that President Bush inherited, and of the consequences of the war on terror, and the war in Iraq, and the meltdown of the stock market and the corruption in——

Mr. MCDERMOTT. Corruption you said?

Mr. SNOW. Corporate suites that affected the stock market.

Mr. MCDERMOTT. You weren't referring to Halliburton; you were referring to something else?

Mr. SNOW. Well, I am talking about what produced the Sarbanes-Oxley Act of 2002 (P.L. 107–204).

Mr. MCDERMOTT. How long are you going to——

Mr. SNOW. This American economy has had a series of shocks that are absolutely incredible, Congressman.

Mr. MCDERMOTT. How long are you going to blame this on the last Administration? You had 3 years to correct this. We have no jobs, we are still in the same problem; and your answer today to us to give certainty to this situation is to make permanent the tax cuts. That is the fourth tax cut you will have proposed in your Administration and you are telling us that the Congress is supposed to ignore these deficits. Deficits in this situation don't really mean anything, folks. We could just pile them up as high as the sky because—I don't understand that.

If you could just tell me one thing. If we extended the tax cuts, where will the interest rates be in November? When you were at CSX, you were worried about your ability to borrow money with low interest rates; today we have low interest rates. Now, where are they going to be in November if we keep going up with this deficit?

Mr. SNOW. Congressman, let me try to respond as carefully as I can. The deficit today is too large. It is unwelcome, and it needs to come down. The budget before you brings it down.

Mr. MCDERMOTT. When?

Mr. SNOW. Well, within 5 years it is down well below the historic average of the deficit as a percent of GDP.

Mr. MCDERMOTT. Your budget the other day—the last couple years said that the budget deficit by about 2008 would be $14 billion and it is $570 billion—whatever the number is, I don't know what the number is. You are telling us it reins it down, and we are supposed to believe you. We are supposed to believe there were weapons of mass destruction; we are supposed to believe all this stuff. Last month in December we got 1,000 jobs created, and you tell us there is an economic recovery.

Mr. SNOW. Well, there is clearly an economic recovery.

Mr. MCDERMOTT. Not in my district.

Mr. SNOW. Four-percent growth rate in the fourth quarter, 8.2 percent in the third quarter; the purchasing index at the highest level for new orders in 20 years; exports rising; manufacturing sector coming back; capital spending of the business sector up 8, 9 percent. There is clearly a recovery. We are disappointed that the jobs haven't come back faster; but as I say, the private sector estimates indicate a very sizeable pickup of jobs in the coming year. We ought to stay on this course because it is the right course——

Mr. MCDERMOTT. Explain to me then, if you have a recovery—and you are very pleased. The stock market has gone back up, I know, I have been watching. Yet, where are the jobs, Mr. Secretary? Ordinary people need jobs. You heard from Mr. Levin about the people who have lost their jobs, and now there are three people looking for every job that is out there, and they are catching—instead of a $20-an-hour job, they are getting a $5-an-hour job. Where are the jobs?

Mr. SNOW. Congressman, the jobs come with a strong recovery. We are in the midst of a strong recovery. They always lag the recovery. That is understandable.

Mr. MCDERMOTT. Until after the election. I see.

Mr. SNOW. As I have indicated, the private sector economists who make the forecasts on this see a pick-up this year of roughly 2 million jobs. We want to see that happen. I would like to see more.

Chairman THOMAS. The gentleman's time has expired. Does the gentleman from Georgia, Mr. Collins, wish to inquire?

Mr. COLLINS. Yes, sir, Mr. Chairman. First of all, Mr. Secretary, you and the President and others in the Administration have spoken about the Chinese currency. What is the latest on the Chinese working with us on the valuation of their currency?

Mr. SNOW. Congressman Collins, there is good news to report there. The Chinese premier Mr. Wen was in Thailand meeting with the President and other officials, myself, Secretary of State Powell in December; late November, early December. We continued the dialogue that I had had with him back in September where I suggested in the course of our conversation in Beijing that it would be advantageous for China and for the world trading community if China would move to flexible exchange rates.

Mr. COLLINS. So, the news is good news?

Mr. SNOW. Well, what the news is——

Mr. COLLINS. I have got another question I want to get to, and I don't want you to ramble.

Mr. SNOW. They are putting in—they can't go to it immediately, but they are putting in the financial architecture that would allow them to go to it.

Mr. COLLINS. Very good. Mr. Secretary, there are two deficits that I am worried about. One is the budget deficit. Of course, the budget deficit comes from two areas; one is income, the other is spending. We are in a war against terrorism which is requiring a lot of extra money for both the war effort and for homeland security. However, when I am looking at the revenue tables, I see there has been a drastic reduction in income coming in. We have in the year 2001 and 2002, compared to the year 2000, a reduction of some $162 billion just in individual income tax; also in the area of corporate tax, some $117 billion deficit compared to the year 2002. It even went down farther with the revenues in the year 2003.

So, there is a reason there that we are running short of money, but yet I feel like if we had not put the infusion of money back into the payroll checks, the economy would not be as strong as it is, and I don't consider it to be strong either.

The other deficit I am worried about is in the area of trade. Retail sales are up 25 percent, but you have—revenues are down coming in from corporate taxation. Where are we getting our product for retail sales? Imports? Is that the reason we have such a high trade deficit?

Mr. SNOW. Yes, Congressman Collins. The exports continue to be—to lag behind imports.

Mr. COLLINS. Well, you have been in business a long time, Mr. Secretary. You have managed some of the largest corporations. It is called competition; is it not? You always have to compete in business. You compete in anything that you go with. What are we doing? What are you proposing or what is in this budget that will help the American worker through their job placement be more competitive in the world market? What are you offering here?

Mr. SNOW. I think we are offering a number of things, but, most importantly, making the tax cuts permanent.

Mr. COLLINS. That is to the individual. What are you doing to help business to be able to compete in the world market with other businesses and other parts of the world? Since that is where the competition exists. The competition exists between workers here and workers there, but it is through the companies they work for, multinational companies. What are you offering in this budget that will help us to be more competitive in the world market?

Mr. SNOW. Congressman, we are competitive——

Mr. COLLINS. No, sir.

Mr. SNOW. When we have low cost of equity capital. We have lowered the cost of equity capital. We want to make that permanent. We have lowered the capital gains taxes. We want to make that permanent. Why is equity capital important? Equity capital is important——

Mr. COLLINS. I understand——

Mr. SNOW. Because it funds the new companies, the new ideas.

Mr. COLLINS. I understand where you are coming from there, but if we are competitive, and equity capital is the answer, why is the trade deficit continuing to increase and retail sales are going up? Why are imports more coming in than exports going out?

The investments, sir, are being made in other countries. Yet, it is this high technology excuse that I keep hearing about. Yes, it has happened, it is there. However, they are building plants in other countries to put the technology in, and not here. I think we need to look at what we are doing in this country if we are going to be competitive in the world market.

Just look at your tax rate, sir, on the corporate tax rates. The average Organization for Economic Cooperation and Development nation is 31.4 percent, and we are 40 percent. Does that not tell you something? Yet, you are coming up here with all these other types of tax incentives that you want to push forward. You had better look at what the corporate America, what the people of the workplace is having to compete with around the world.

Mr. SNOW. Well, as I said earlier in answer to two or three questions, I think we need to make sure that the prejudicial treatment through the Tax Code of our businesses is dealt with. I have made that clear.

Chairman THOMAS. The gentleman's time has expired. Does the gentleman from Georgia, Mr. Lewis, wish to inquire?

Mr. LEWIS OF GEORGIA. Thank you very much, Mr. Chairman. Mr. Secretary, thank you for being here today. In a word or two, can you tell us, what is your vision as Secretary of the Treasury, what is your vision for this Administration during the next year? How will you use your position as Secretary of the Treasury? What type of America do you want leave for the next generation?

Mr. SNOW. Well, I want to support the President in his major thrusts that are incorporated and reflected in this budget: the war on terror, which we have to be successful in. That goes to the—that goes to our responsibility to protect the American citizens and to give them a sense of security. We need to make sure that the homeland is secure, and we need to make sure that we are doing everything we can to bring the terrorists to justice.

We also need to make sure that people feel economically secure; that there are jobs; that the economy is growing and expanding; that they have access to health care. This budget, of course, provides for expanded access to health care by importantly lowering, creating an opportunity to lower the costs of health care.

I think we need to be concerned about pensions and the security that employees have in their pensions. I think we need to encourage people to save and become part of an ownership society, which is very much part of the President's vision for America.

So, homeland security, and personal economic security through savings plans, through pension plans, through enhancing people's ability to live in a society that rewards their savings and investing activities, those would be the main thrust I would see the Treasury working on.

Mr. LEWIS OF GEORGIA. I appreciate that very much, Mr. Secretary. All those things may be good, but in your heart of hearts, how do you believe that we can accomplish all of that? With limited resources, with permanent tax cuts, how can we do it? Can a nation—can we afford these tax cuts?

Mr. SNOW. Congressman, I think we can't afford to go the other way. I think it would be a terrible mistake to put a tax increase on the American people, and that is the effect of eliminating these tax reductions.

Mr. LEWIS OF GEORGIA. I am not suggesting, Mr. Secretary, that we increase taxes, but can we afford—can we go down this road and continue to cut taxes and make the tax cuts permanent? How much would it cost the Treasury during the next few years?

Mr. SNOW. Congressman, we can afford it. We absolutely can afford it, because the budget that has been put forward puts the government on a path to reducing that deficit, cutting it in half over the course of the next 5 years.

Why do we worry about deficits? Well, you worry about deficits because deficits, if they are entrenched and large, lead to reactions in financial markets. They lead financial markets to demand a risk premium for inflation, which takes interest rates up. Higher interest rates——

Mr. LEWIS OF GEORGIA. Mr. Secretary, isn't it true that the true cost of the tax cuts would not be realized until long after this Administration is gone, 2011?

Mr. SNOW. No, Congressman. If the tax cuts were imprudent, the financial markets would already be registering that in the price they charge for funding the debt of the United States. In fact, funding rates for the U.S. debt, interest rates are generally at their lowest level in 40, 45 years. So, the financial markets are giving us the benefit of the doubt saying we will solve the problem.

Mr. LEWIS OF GEORGIA. Mr. Chairman, could I just—I want to know, Mr. Secretary, why was not anything in this budget, any resources, for our military efforts in Iraq and Afghanistan? Why was that left out?

Mr. SNOW. The Administration acknowledged that there well could be a supplemental at some point once it was understood better what the facts were, what was required and what the needs would be. That is why.

Mr. LEWIS OF GEORGIA. Thank you, Mr. Chairman.

Chairman THOMAS. The gentleman's time has expired. Does the gentleman from Ohio, Mr. Portman, wish to inquire?

Mr. PORTMAN. Thank you, Mr. Chairman. I do. I appreciate the dialogue with my colleague from Georgia, and I appreciate him giving you a chance to talk about your vision. I think the budget reflects the vision, and I support it. I think it is important that we back up and talk a little about the deficit. Mr. McDermott said we can't keep blaming it on what happened in the previous Administration, but the fact is you did inherit an economy spiraling into recession. You did have the tragedy of 9/11 which had a huge impact on the economy.

We can talk about the corporate scandals from 1990s and the stock market bubble and so on, but it is even more interesting to me to look at the deficit, and looking at your numbers and Office of Management and Budget's numbers, I think about 30 percent of the deficit is due to new spending, some of which was needed in the war against terrorism. About 40 percent of it, as I look at it here, was due to the economy going down. So, the biggest plurality was the economy, about 10 percent new borrowing, and about 18.5 percent—let us say 20 percent—was due to the tax relief. My question to you would be that 20 percent which is due to the tax relief, what impact has it had on our economy over the last couple of years?

You talked about some of the data from 2003, a 26-percent increase in equity markets, you said, with over $2.5 trillion, over half of America's families now taking advantage of that; the economic growth in the second half of 2003, the fastest growth since 2004. That 20 percent, what impact did it have on the economy, which, after all, is the biggest determinant of our deficits?

Mr. SNOW. Congressman, if we had not seen the 2001, 2002, and 2003 tax relief, I think we would have had—I think the evidence is clear, we would have had a much deeper and a much longer and a much harsher recession, and millions of additional people would have been unemployed, and the growth rate for the American economy would have been much, much lower. There simply can't be any doubt about the fact that the actions of the Congress in adopting those proposals which you adopted have made the recession shorter and less steep, less harsh than otherwise would have been the case, to the benefit of millions and millions and millions of Americans. Through the actions last year, you have put the economy on a course for a strong, strong recovery.

Mr. PORTMAN. That is the key to getting the deficit down, isn't it, as we saw in the late 1990s? Restraining spending was important. I commend you in this budget for keeping non-homeland, nondefense discretionary spending under 1 percent.

In your budget, you also though talk about taxes, and you said that we shouldn't allow taxes to increase. You call it permanence; I say not allowing the taxes to increase, which is really what would happen. Why is that important to the economy and, therefore, the deficit?

Mr. SNOW. It is important, it is critical because the uncertainty about taxes is a restraint on the economy. If the American public ever—business and taxpayers thought their tax rates were going to go up, they would react in a very negative way. There would be less investment on the part of business; small business would be far less buoyant about their outlook. Individual taxpayers, who I now talk to on a regular basis, wouldn't be doing the things they are doing that are helping the economy, taking vacations, traveling, buying cars.

Mr. PORTMAN. Hopefully investing in savings.

Mr. SNOW. Hopefully investing in savings, too, once we get these vehicles put in place.

Mr. PORTMAN. Mr. Secretary, I couldn't agree with you more. Let me also say that I commend you on your Internal Revenue Service (IRS) budget. I do think some more funding is necessary on the enforcement side. You have increased enforcement by about 10.7 percent. I always have believed that there is a fine balance between service and enforcement, but they are not mutually exclusive. This Congress didn't think so when we passed the IRS Restructuring and Reform Act of 1998 (P.L. 105–206).

You mentioned the savings investments, the initiative for savings. I have just got to tell you, I do differ with you, as you know, on the LSAs. We have talked about this for a year now and in response to that previous question, let me just correct you. There is a huge difference between a Roth IRA and an LSA. With an LSA you can put the money in and take it out for any purpose. With a Roth IRA, yes, you can take it after 5 years if you use it for one purpose: first-time home buyers only. Otherwise you have to keep it in until you are 59–1/2 years old. Even when you are 59–1/2, Mr. Secretary, you still have to have had it in there, in terms of the earnings, for 5 years.

Just so the record is clear on that, there is an incorrection earlier in your statement about that.

Mr. SNOW. I was responding to the structure. It has got the same basic structure.

Mr. PORTMAN. Well, I wrote your quote down a little differently there. They are different vehicles, and that is my concern. I strongly commend the Administration for focusing on savings. It is fantastic. This Committee and this Congress has done that over the last 8 years, and we have simplified and added the ability for people to put more into their 401(k)s and IRAs and other vehicles, and I really commend you for pushing on that. Let us do it for long-term savings.

Chairman THOMAS. Thank the gentleman.

Mr. SNOW. Congressman, I don't see the war you see, I really don't, between longer term savings and making these plans generally available. I don't—I know the argument is made, but I think it is probably an invalid argument. The LSAs could be incorporated by annuitants, by companies that sell annuities for the first part of it. There is—you can merge the two to get the benefits. Talking to a number of people in the industry, I think we are beginning to see some softening of the position on this where many in the financial community see these vehicles as a tremendous opportunity to market a product that will bring large numbers——

Mr. PORTMAN. I really am not so concerned about what people in the financial community want to market about as——

Chairman THOMAS. The gentleman's time has expired. This is the first exchange on this matter for this year, but I am quite sure it won't be the last. Does the gentleman from Massachusetts, Mr. Neal, wish to inquire?

Mr. NEAL. Thank you, Mr. Chairman. Mr. Secretary, welcome. I had only intended to speak to AMT, but I want to follow up on what Mr. Portman said; that we might disagree and bicker over the official date of when the recession settled in, but there is one fact that is not in dispute, and that is that the Bush Administration inherited record surpluses. Only in this institution, Mr. Secretary, could the Majority party vote to rip $1.2 trillion out of the budget over the next 10 years and then complain about deficits. That is the predicament we are in today. Let me speak specifically to this AMT issue, that you are going to do a study on.

Mr. SNOW. Yes.

Mr. NEAL. Well, I want to tell you, if I can politely, Mr. Secretary, that I have now filed legislation in the last three sessions of this Congress to repeal the AMT, and I have never had one call from a Member of the Administration saying that they were interested in working with me on any segment of that proposal.

I would be delighted to participate in these discussions with you. I suspect that the reason that we are only studying the AMT as opposed to doing something about it once again is because of its cost, isn't it, in part?

Mr. SNOW. No, Congressman, it is not. It is much more than that. This is a tax which will affect many, many, many millions of Americans who aren't aware that they will be affected by it.

Mr. NEAL. Mr. Secretary, there is nobody in this body and this Committee that has looked at AMT more than I have. I am well familiar with the point you are making. However, the truth is it gets worse year after year after year.

Mr. SNOW. Mr. Neal, I would look forward to talking to you about this subject and looking at your legislation. We are going to need a lot of good ideas on how to deal with this problem, and I look forward on drawing your counsel.

Mr. NEAL. Let me just pursue it a bit. One of the difficulties that those of us have on this side is the suspicion that we are not fixing AMT because it doesn't square with tax cut rhetoric here. Since it only impacts middle-income Americans and not lower income Americans and upper-income Americans any longer, we really don't deal with it because of the fact that it is easier to stuff tax cuts into the budget than it is to deal with AMT. Is that a reasonable suspicion that some of us might hold?

Mr. SNOW. We want to deal with AMT because it is a real issue, it is a serious issue, it has far-reaching implications and effects on millions and millions of Americans who are unsuspecting about those effects, and we want to do it in a way that makes sense and is sound. That means taking into account the regular tax system as well, because it has such dramatic interaction and effects on the regular tax system.

Mr. NEAL. Would you agree with this statement: that if the Bush tax cuts are made permanent, the AMT gets worse?

Mr. SNOW. No, I don't think I would agree with that.

Mr. NEAL. Do you want to pursue that?

Mr. SNOW. Well, I don't——

Mr. NEAL. You can't give it to the people on one hand, Mr. Secretary, and take it away on the other and call it a tax cut or tax relief.

Mr. SNOW. You heard me say earlier that we would seek to find a solution to this problem working with the Congress in a budget-neutral way.

Mr. NEAL. We had an opportunity here a couple of years ago, rather than to pursue just the discussion of tax cuts versus no tax cuts, to find some middle ground on an issue like tax simplification, which we could all buy into, all join hands and get together on it. That is where we ought to be heading, and that is just a quick suggestion.

Let me ask you about another question, Mr. Secretary, that I think is near and dear to the hearts of all of us who are watching those 134,000 American troops brilliantly perform every day in Iraq. It is those corporate tax evaders who have set up shop in Bermuda. What are we going to do about it?

Mr. SNOW. Well, if you will see in our budget, we have toughened up the enforcement significantly at the IRS. We are——

Mr. NEAL. Do you think that they are really Bermuda corporations, or do you think they are American corporations with fictitious addresses?

Mr. SNOW. Well, I think it is a fact, a fact question, obviously. We want to go after tax havens. We are dealing with the interest, the income-stripping through the proposals that are in this budget. We are trying to negotiate treaties with a number of those tax haven countries. I think we are making real progress on it.

Mr. NEAL. We could do more to promote the credibility of the Federal Tax Code by shutting down some of these loopholes and going after these evaders. We could all stand shoulder to shoulder on it and stand up and cheer for those kids that are in Iraq by saying that this group that sets up these phony post office boxes in Bermuda ought to pay their share like you and I do, Mr. Secretary.

Mr. SNOW. Congressman, I am with you. We want to go after abusive tax shelters anywhere we find them. I agree with you.

Chairman THOMAS. The gentleman's time has expired. Does the gentleman from Illinois, Mr. Weller, wish to inquire?

Mr. WELLER. Thank you, Mr. Chairman. Mr. Secretary, good to see you this afternoon. Thank you for joining us. We appreciate your time.

As you know, we have been very focused on the economy, focused on creating jobs in this country. I have enjoyed working with you, as I know the others in the Committee have, as well as the President, to find ways to improve this economy and to create jobs.

The jobs in the economic growth package that we worked and put together last year and signed into law by the President is working, it is having a real impact. We have seen record economic growth. We have seen almost 300,000 new jobs created in the last few months; the stock market, the barometer of the confidence in the economy, certainly has gone up significantly. However, as we work to continue moving forward on growing the economy and creating jobs, we have some decisions before us.

I certainly want to salute the Administration for recognizing that there are tax consequences that we need to consider, the repeal of the marriage tax penalty, the doubling the child tax credit, the lower rate for low-income Americans, the 10-percent bracket need to be extended at the end of this year; otherwise, we will see a tax increase on families. I think in Illinois there are 3 million children who benefit from the child tax credits, so the parents of those children could see higher taxes of up to $300 per child unless we extend the child tax credits. Obviously there is 3 million Americans today that no longer pay Federal income taxes because of the 10-percent bracket and our efforts to widen it, and of course the President's leadership in helping the low-income working families. So, that is real progress.

A provision that I would like to discuss with you, Mr. Secretary, is the one that I consider to be the most pro-manufacturing provision that was in the jobs and economic growth package, and that is a provision—the bonus depreciation provision and incentive that we worked to create to encourage business to invest capital assets, company cars, computers, telecommunications, equipment, renovate their buildings as an incentive, which, of course, creates jobs because somebody has to do the work and assemble that particular asset.

One thing I noticed just looking at the impact of bonus depreciation. We have seen tripling of business investment. The electronic sector says they have seen a 38-percent increase in demand for electronics and computers. The aviation sector has seen a 45-percent increase in demand for their manufactured products. In most cases they find that the bonus depreciation was the deciding factor in making that business decision.

Also, I would note even our own Ways and Means analysis says that total business equipment investment was $929 billion in the fourth quarter, which is the highest level of equipment investment ever. I was wondering, from your perspective, Mr. Secretary, you are a former business executive, do you agree that the bonus depreciation has worked?

Mr. SNOW. I think it has been effective, certainly. I think it has, but as you know, it was meant to be temporary. I think that the economy is coming back now in a way that it has sufficient momentum to continue to encourage capital spending without the added advantage that that provides. Clearly it had an effect, it had a major effect, in my view. The fact that it is coming to an end probably is encouraging greater use of it now, which is also beneficial. Businessmen make decisions to invest—having been one of them—when you see a strong economy with order books strong, and they think of the taxes, I think, in conjunction with what is the business outlook. The business outlook right now, as I talk to the business community, is awful darn strong.

So, I know you are asking me whether I see the need to continue that depreciation, the 50-percent depreciation—which was 30 percent, I think, and then we took it to 50 percent. It has had its effect, I don't think it is required now to keep the economy going.

Mr. WELLER. Well, many of us feel it should be extended because we want to keep that demand for manufactured goods going, because it is working, it is creating opportunities for people to get new jobs as a result of an increase in demand for manufactured goods. It is working. We are seeing the manufacturing index up significantly. While you did not include it in your budget because you feel, well, let it expire and that will be an incentive, but do you expose an extension of the bonus depreciation?

Mr. SNOW. Congressman, as I said, I think it has a useful effect; it has worked, it has helped keep the economy stronger than it otherwise would have been. It is not in our budget, but I am not saying that it is tax policy that we find a great deal of fault with. It is effective tax policy at the right time. I am just raising the question of whether it is needed at this time.

Mr. WELLER. All right, thank you.

Chairman THOMAS. The gentleman's time has expired. Does the gentleman from Tennessee, Mr. Tanner, wish to inquire?

Mr. TANNER. Thank you, Mr. Chairman, and thank you, Mr. Secretary, for being here with us today. Mr. Secretary, how would you categorize increased interest payments on the national debt, as just further mandatory spending? Or how would you characterize the increase interest payments on the debt that continues to go up?

Mr. SNOW. It is an obligation that has to be met. It is an unavoidable obligation of the Federal government.

Mr. TANNER. So, if it is an unavoidable obligation, it means that one way or another the American taxpayers have to come up with the money to pay interest on the debt that comes before any other spending. Would that be fair?

Mr. SNOW. Congressman, I would agree with the thrust of what you are saying. The United States—it is inconceivable the United States would fail to meet its obligations, and interest is an obligation.

Mr. TANNER. Well, let me then ask, this January, for the first time that I know of, the Comptroller General said that the unsustainable borrowing that is going on is driving the Nation toward a fiscal crisis. This is what somebody said in this town for the first time: our fiscal gap is too great to grow our way out of this problem. He went on to say: based on reasonable assumptions, it would require double-digit real GDP growth for decades to grow out of this problem. That is not going to happen. It is time we recognize reality.

Do you agree or disagree with that assessment, sir?

Mr. SNOW. Congressman, I agree that we can't grow our way out of the deficit; that growth alone won't get us there. Growth is a necessary condition, but not a sufficient condition, to get us out of the fiscal deficit. That is why the President has called for the tight spending controls.

Mr. TANNER. The other question, other than the fact that we no longer can assume to grow out of this, I would categorize this if we were in an airplane as in a death spiral. Something has got to change, or the airplane is going to hit the ground. Your budget over the next several years forecasts every year with I say fairly optimistic growth figures; still, the receipts of the government not keeping pace with the expenditures. You said earlier that this leads to a reaction in financial markets.

Following up on what Mr. Collins said, we have experienced in our country the most rapid drop in foreign direct investment in the history of our country. In 2000, the United States received $314 billion in direct foreign non-governmental investment, and last year it was just $30 billion. For the first time since 1950, both France and Germany received more foreign direct investment than we did. I would say, in answer to what you told him, that the results are already in in the foreign markets. The London Financial Times reports that, with regard to our structural ongoing budget deficits, that we will not be considered creditworthy if we continue to behave like we are behaving.

Now, I don't believe that, but I do think, sir, that to submit a budget that doesn't balance—and optimistic revenue projects by 2009, and then to come here and add another $1.2 trillion on top of that with further tax policy is going to result, just that alone—Since your May 2000 economic plan for this country—that alone is going to be at 4 percent which will result in an additional $100 billion a year in interest on this debt. That is a tax increase of mammoth proportions, far, far more than any tax bill we could dream up, $100 billion a year every year for which we receive absolutely nothing.

To make it further worse, if I could, is that the amount of accumulation by foreigners of this debt is growing at such a record pace. Over $500 billion in the last 20 months is being bought by foreigners. So, now we are not only writing checks for interest for which the American people get nothing, we are writing them to foreigners.

Mr. Secretary, I plead with you, I plead, beg of you to look at this again and see if there is not some way we can work together to rein in what is a death spiral if we were in an airplane. If you—I plead with you. Thank you.

Chairman THOMAS. I thank the gentleman. The gentleman's time has expired. Does the gentleman from Missouri, Mr. Hulshof, wish to inquire?

Mr. HULSHOF. Thank you, Mr. Chairman. Mr. Secretary, welcome. It is great to have you here again. I think a couple of points need to be underscored, and then I would like to ask a couple questions.

I think it is beyond dispute that as President Bush was being sworn into office, the economy had begun a slowdown. That recession that our economy experienced has turned into a recovery. You have rattled off a number of areas, in fact, where the economy is improving. In fact, in today's Wall Street Journal the manufacturing index once again showed improvement, which is great news especially in light of some of the political discussions that we have had here on Capitol Hill.

What I want to talk about, in fact, what I have queried to some of my colleagues, is that even with the economy improving, the one thing that could pull the rug out from underneath the economy that is imminent, that will occur unless Congress acts, is dealing with the foreign sales corporation (FSC) and ETI problem. We know that that is imminent because of what the EU has indicated is a deadline. I wanted to follow up on some of the comments you made earlier, because I think you stated, if I am—and correct me if I misstate your position—that the Administration, rather than just a repeal of the FSC and ETI, the Administration would support some reform along with that repeal. Is that a fair assessment?

Mr. SNOW. Yes. Absolutely. We want to make sure that in the process of repeal nothing is done that prejudices the competitive position, and hopefully improves the competitive position of U.S. global enterprises.

Mr. HULSHOF. Well, and thank you for that, because, again, to my friend Mr. Neal—and I know that he has been very passionate about this issue on corporate inversions, and we share that. There certainly is a difference in my mind with a company that sets up 2,100 post office boxes in another country for the sole purpose of trying to avoid its tax liability; that is completely different than a board of directors answering to shareholders, making a legitimate business decision to move its corporate headquarters off of our shore into some other country because—something again that needs to be underscored to the American tax-paying public—our Tax Code places our American companies at a disadvantage. We had hearings in this great hall in other settings where—or other occasions where DaimlerChrysler is just that, DaimlerChrysler and a German company, because in part the disadvantage that our tax laws put them and their legitimate business decision to move to Stuttgart.

So, along with that reform, what are the areas specifically that the Administration would point us to as most needing reform?

Mr. SNOW. Well, there are several things that would come to mind. One would be the uneconomic limitations on the use of foreign tax credits. That is an area I think deserves to be looked at. I would also look at rules that have the effect of increasing the cost of U.S. companies marketing U.S.-produced products abroad or providing services abroad to foreign customers. These would be top of the line sort of things.

I do want to go back to the point you made. It is not the Administration's view that every time a company goes offshore, that that is an abusive tax shelter. Clearly that is not the case. Sometimes companies go offshore because of the effects of our own Tax Code on them vis-a-vis the tax regime of competitors they have. The critical thing is every business has to remain competitive. So, I take your point very much.

Mr. HULSHOF. This Committee—and my time is short. I will try to get this last question out before the gavel comes down. This Committee worked on a tax bill before that had corporate tax rate reductions. I know there are some—again, there is some dispute here on this side of the dais about whether that should be specifically for manufacturing. Then, of course, we have got this definition, what is manufacturing, or whether it should be more broad-based. Again, what view does the Administration have about the tax rates for corporate?

Mr. SNOW. Well, I think there is a case to be made for going down that route to help make American companies more competitive. I think the case is much better if it is done across the board rather than targeted on particular industries. One problem with targeting particular industries is you are likely to find that a lot of people who weren't in those industries all of a sudden become new entrants for purposes of the Tax Code.

Chairman THOMAS. The gentleman's time has expired.

Mr. HULSHOF. Thank you, Mr. Chairman.

Chairman THOMAS. Does the gentleman from California, Mr. Becerra, wish to inquire?

Mr. BECERRA. Thank you, Mr. Chairman. Mr. Secretary, thank you very much for being here and certainly for your patience as we go through all these different questions.

By the way, let me also thank you for the conversation we had prior to the commencement of the hearing with regard to the Individual Taxpayer Identification Numbers (ITINs) and the work that the Treasury will be doing to try to make sure that we affirm the sanctity of ITINs. Thank you very much for that.

Something you said, Mr. Secretary, a while back; it has probably been about 30 to 45 minutes. You talked about your priorities. Congressman Lewis asked you about that, and I would like to key on that because I thought it was important.

You mentioned the war on terror, the need to make sure the homeland is secure and economic security for Americans. Those are the three that I heard most. I would agree with you on those three, but I think going along with some of the questions that have been asked—and I would join with Congressman Tanner in his line of questioning that just concluded—I think a number of us are very concerned about the fiscal health not just of the Federal budget, but of the American economy. Any American who has a mortgage and owns a house or has taken out an auto loan to purchase a car or a personal loan to buy the new clothes washer, has to pay on that loan. It can be very expensive if you have a high interest rate. As I look at where we are today, according to your numbers, with a more than a $500 billion deficit for the fiscal year, and if we make these tax cuts that the President is proposing permanent, you would add another $2 trillion to the deficit over 10 years.

I did some quick math because I think for most Americans, including my parents when I was trying to explain to them these things, they lose it when you are talking not just billions but trillions. So, I did some quick math here on the calculator. The cost to each and every American of a $2 trillion increase to the size of the debt, $2 trillion over 10 years in deficits would be $6,800 for each and every American man, woman, and child in this country.

If we talk just about the $520 billion or so deficit that the Administration is predicting for 2004, that is $1,800 for every man, woman and child in America. That is a tax on every man, woman, and child in America.

If you are talking just in terms of the households, because not every child obviously files an income tax return, but just the tax filers, and there are some 130 million tax filers of the 290 million or so Americans, that would be a tax of $3,900 on every tax filing family in this country by this current fiscal year deficit.

If we are going to add to it another $2 trillion and on top of that we have got the costs of Iraq and Afghanistan, we have got to deal with the AMT for middle-class Americans, who otherwise pay more in taxes, it is going to add up and add up.

You add all that to the $4.4 trillion debt that we currently have, and that must be something on the order of $15,000 per every man, woman, and child in this country that we have to pay, or our children and grandchildren have to pay. It adds up.

If it is going to grow over the next 10 years by some of the policies that the President is proposing to more than $6 trillion, to about $6.5 trillion, I think a lot of us are wondering, how will be able to do what we need to do?

Then a final comment I would make is that—and I am going to ask for your response—is that it seems that the President is trying to hold the line on certain spending, non-defense, non-homeland security spending, which means, for the most part, education, health, the environment, veterans' benefits, it seems like, for the fiscal year, we are going to save about $12 billion.

Now, if the math I did is correct and the information I got from the Brookings Institution is correct, the tax cut benefits in that same fiscal year, this coming fiscal year, for the 1 percent richest Americans, just the 1 percent richest Americans, will be about four times greater than the cuts you will make in every education program, health care program, veterans program, senior program, and environmental program.

Why would we want to go down a road where we continue to give such massive tax cuts to folks who are extremely wealthy? Many of them would be willing to sacrifice a little bit, along with our soldiers. Now I have to make cuts to the Even Start Family Literacy program, which your budget eliminates completely; the Eisenhower Math and Science programs, which would be killed completely as well; the Vocational and Adult Education programming, which we need for a lot of people who have been losing their jobs—that would be slashed by 35 percent.

You eliminate completely all the money for dislocated workers who lost their jobs as a result of the North American Free Trade Agreement. Give me a sense of how we can have some comfort and stability for the markets that this is the right way to go.

Mr. SNOW. Thank you, Congressman. Let me just try and put that in perspective. First of all, the Administration has in this budget shown a path to reduce the deficit to below 2 percent of GDP, which by historical standards is quite low.

Mr. BECERRA. That is still about a quarter of a trillion dollars every year.

Chairman THOMAS. The gentleman's time has expired, and the Chair notes the ability to ask a question until the red light comes on. That doesn't mean the Chair is going to indulge a verbal answer. The gentleman's question deserves to be answered and perhaps it might best be answered in written form.

[The information follows:]

The tax proposals included in the President's Budget, including the permanent extension of the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) and the Jobs and Growth Tax Relief Act of 2003 (JGTRRA), are important measures to insure economic growth and well-being. Faster economic growth is the best way to increase everyone's standard of living. With these proposals in place, over the longer term the ratio of federal receipts to GDP will be above historic norms. Longer-run deficits therefore result from the rapid growth in outlays rather than from insufficient revenues.

The President's tax proposals will benefit taxpayers at all income levels, especially low-income taxpayers. Permanent extension of EGTRRA and JGTRRA will lower the share of individual income taxes paid by lower-income taxpayers and increase the share paid by high-income taxpayers. Conversely, failure to extend EGTRRA and JGTRRA would increase the share of individual income taxes paid by lower income tax payers.

Mr. SNOW. I would just close with the Chairman's counsel there by saying that you—that the tax reductions being made permanent is about $980 billion, say $1 trillion, but the revenues to the Federal Government over that period are $28 trillion. The GDP of the United States—this will comfort you a lot—is $150 trillion. So, we need to put these numbers in perspective.

Mr. BECERRA. Thank you, Mr. Secretary.

Chairman THOMAS. In other words, there is a difference between spending and investing. Does the gentleman from Florida, Mr. Foley, wish to inquire?

Mr. FOLEY. Thank you very much, Mr. Chairman. I appreciate the Secretary's appearance today, and I do take some umbrage at some of the self-appointed judge and jury comments of the Minority party today challenging this President's credibility. It troubles me that we sat and looked at Khobar Towers and two embassy bombings, World Trade Center bombings, and we were all, some of the other side of the aisle saluting this President, the greatest President that ever lived, having lied to the American public, having dragged us through an impeachment battle, and never responding to the terrorists who were there gathering strength and aiming their weapons of mass destruction against us.

I know some on this panel had a chance to meet Mr. Saddam Hussein. I had no interest in meeting him. He is a mass murderer. He is a demon. He killed over a million people, and for those to suggest somehow that this President has not acted appropriately in conducting this war is absolutely asinine. Charles Taylor removed from Liberia, Libya now working with the United States to disarm, Pakistan and India finally talking together; these are things that are achieved through the strength of this President.

Talk about the economy. Yes, we inherited, I think, an economy spiraling out of control in 1999. Look at your statements prior to the 2000 election. Look at your statements, the declining value. I think most Americans recognize we were on the way down, not the way up.

Job loss. People don't blame September 11th for job loss today?

Let me tell you what tourism is like and has been like in Florida: 25-percent reduction in international arrivals to Orlando alone. That is waiters and waitresses, that is taxicab drivers, that is the entirety of an economy that has suffered because of September 11th.

Now, some don't want to admit that that is still a hemorrhaging problem, but it is. I think this Administration has acted appropriately on so many fronts, and I would like to ask a question.

There are some considerations in the bill on depreciation, reducing to a more reflective life of the asset. What are your thoughts on bringing a depreciation schedule to more properly—I think you answered Mr. Weller on the computer situation; I am talking about interior improvements and things of that nature. As businesses use and expend, shouldn't we be reducing their value commensurate with their useful life?

Mr. SNOW. Well, I think—Congressman, first let me thank you for those good comments, those good opening comments with which I would like to be associated. We forget sometimes where we have come from and the burdens that have been visited on this economy.

When I talk to businesspeople around the world, they marvel that the American economy has been able to continue to move forward in the face of all the things you mentioned, absolutely marvel, and they wonder at it. How could it be? Of course, it is a tribute to the American people and their resourcefulness and their energy and their drive; it is a tribute to the Congress for having taken the actions you took; a tribute to the President for the leadership he provided.

I was in—I will just tell you a little story along those lines. I was with a homebuilder in Charleston, West Virginia, last week, and he took me to the house site, the home site. He said, "I stood here on September 12, 2001, and I thought, my gosh, will I ever be able to sell any of these homes? Will anybody have confidence in America? Will America spiral out of control?" He then said, "I will always be with this President, because he provided the leadership that the country needed at that most difficult of all times. That leadership reassured the Nation at a time that was critically important, and it didn't"—he said, "It didn't just help us on the security front. It helped us in a critical way on the economy."

That is what you are talking about, absolutely. Sure, I think we should get the useful lives as reflected in the budget more in line with the wear-out rates on those assets. I agree with you.

Mr. FOLEY. Thank you. What do you see the progress—obviously, I think we are going to start seeing some job hirings. It usually lags. When the economy starts picking up, the market is reflective of more consumer confidence, and I would expect shortly jobs to start filling in, if you will.

Mr. SNOW. Congressman, I think this is a unique situation we have got. That recession we had was, in the manufacturing sector, really very deep and widespread. Many, many businesses today are reluctant to start hiring until they are absolutely confident. That is why putting those taxes in on a permanent basis would be helpful.

All the signs we see indicate that the labor markets are getting considerably stronger. Capital spending is way up. New orders are way up. The manufacturing sector is coming back. Exports are coming back. The life signs of this economy are all good, and that always leads to jobs. I am confident we will see a nice pickup in jobs in the months ahead.

Chairman THOMAS. I thank the gentleman. Does the gentleman from North Dakota wish to inquire, Mr. Pomeroy?

Mr. POMEROY. I thank the Chairman. I found the remarks of the gentleman from Florida very interesting, and particularly the threat of the weapons of mass destruction reference that he uses. You might want to update your script. The Administration itself is calling for a commission to inquire as to how our intelligence could have been so dramatically, tragically incorrect on that one. That is for—that is for another——

Mr. FOLEY. You feel they never existed?

Mr. POMEROY. That is for another day. I do want to inquire of the Secretary as to the savings plan. I noted with from your statements that this is an issue close to your heart, and the people most affected are low—and middle-income savers, that is where we most need to focus. Those are your words, Mr. Secretary?

Mr. SNOW. Yes.

Mr. POMEROY. The savings proposal advanced repeals the tax deductible IRA. Now this has been a feature of the saving landscape for more than 20 years. There are more than 36 million households with traditional IRAs. You repeal those from the Tax Code going forward.

Another saver's incentive aimed at the modest and middle-income bracket that this Committee has moved forward and passed into law is the saver's credit that, in particular for households under $50,000, produces a new and powerful savings incentive. It is only 2 years old. We already have been able to measure more than 3.5 million households responding to the saver's credit incentive. This also is repealed in the saver's proposal.

Now, as I understand it, the saver's proposal does move into place these new LSAs and RSAs, and as they work, a family, for example, a family of four, could put $5,000 per individual into a tax-sheltered LSA account. Of course, then the RSA would go on top of that, and so a—for the mom and the dad, if they were both working, they could put an additional $5,000 per in those accounts.

So, it appears to me, Mr. Secretary, that what you have moved forward is something that allows additional tax shelter for affluent households to tax shelter more than $30,000 of income each year. On the other hand, if you are talking about households that might be making $30,000, which is much more the case in North Dakota, they have lost the two savings vehicles that provide the most direct incentive for savings and have some proof in the marketplace. How do you explain that?

Mr. SNOW. Well, I think, Congressman, that the savings opportunities for lower—and middle-income people clearly go up under these proposals. They are enhanced opportunities for savings as the complexity, the burdens, the restrictions that are associated with current savings vehicles are removed.

Mr. POMEROY. Well, Mr. Secretary, I just would like to clarify your comments on those areas. Those are easily said things, it is too complex, it is too cumbersome. We have 36 million traditional IRAs out there. In addition, this 3.5 million that have already responded to the saver's credit is, I believe, a level of market receptivity that goes beyond what we might have anticipated. Indeed, what these two represent—a tax deductible IRA and a tax credit for savings—are powerful financial incentives to save among groups for whom the decision made with the discretionary dollar is hardest, because they don't have many discretionary dollars. So, you provide a powerful incentive for them to save.

Now, you have said you have got all kinds of studies to show that this is going to increase the rate of savings at lower and modest income households. Are those public studies, sir?

Mr. SNOW. I think those are Administration studies.

Mr. POMEROY. Would you be content to release them to this Committee?

Mr. SNOW. I think we would certainly be prepared to sit down and talk to you about your studies. They not only show what you just said, they also show that the total savings, the aggregate savings of the country would rise. That is the real focus here, the aggregate savings of the country, because——

Mr. POMEROY. Well, Mr. Secretary, aggregate savings are achieved by the tax shelter so that affluent households can put $30,000 each year into these tax-sheltered accounts. If that is what are you after, that is one thing; but that is not advancing in any way the savings interests of modest-income and middle-income families struggling to save for their retirement, and I believe that is where we need to have our emphasis.

Mr. SNOW. Congressman I would just close on this by saying that wealthy families have ample opportunities to save today. Where we need to improve the savings landscape is with lower income and middle-income families.

Mr. POMEROY. Now on that one, just a quick follow-up, Mr. Chairman. You removed the caps on eligibility. So, would you be agreeable then to placing existing caps back on tax deductibility?

Mr. SNOW. I think our proposals are properly structured as reflected in the budget.

Chairman THOMAS. The gentleman's time has expired. Does the gentleman from Wisconsin, Mr. Ryan, wish to inquire?

Mr. RYAN. Thank you, Mr. Chairman. Mr. Secretary, I want to ask you two questions, one on the permanence issue of tax policy and one, first, on the transportation letter that you and Secretary Mineta just sent to the Congress yesterday. This is a fairly significant letter that I think is going to receive a lot of attention here on Capitol Hill; and on the three principles you lay out here, I just want to ask you this.

You say that if the transportation bill that is coming before Congress does not—does increase the gas tax, does have bonding authority put into it, or finances the transportation outside of the trust fund, are you saying that the President will veto that legislation if it breaks any of those principles?

Also, just a second follow-up to that, you have the number $256 billion in here for the 6-year transportation trust fund bill. If this bill goes over that amount, are you also saying that the President is going to veto that legislation?

[The information follows:]

The Secretary of Transportation
Washington, DC 20590
February 2, 2004

The Honorable William M. Thomas
Chairman, Committee on Ways & Means
U.S. House of Representatives
Washington, DC 20515

Dear Chairman Thomas:

As you continue work on the surface transportation reauthorization bill, we would like to discuss key elements of the Administration's proposal and key principles that we urge you to consider.

The Administration proposal, "Safe, Accountable, Flexible and Efficient Transportation Equity Act" (SAFETEA), as modified by the President's FY 2005 Budget, contains historically high levels of guaranteed investment for highways and transit, providing $256 billion over 6 years—a $45 billion, or 21% increase over TEA–21. This $9 billion increase above the original SAFETEA proposal reflects both revised Treasury estimates of Highway Trust Fund receipts, and the Administration's recognition of the higher levels enacted in the FY 2004 Omnibus Appropriations Act. At this funding level, all revenues paid by highway users. would be spent on transportation infrastructure and safety programs, and the balances of the Highway Account of the Highway Trust Fund would be spent down for additional transportation infrastructure investment to the maximum extent possible.

SAFETEA strikes the appropriate balance between investment in our infrastructure and the need for spending discipline, consistent with current law. In developing our funding level of $256 billion, the Administration adhered to three important principles:

1. *Transportation infrastructure spending should not rely on an increase in the gas tax or other Federal taxes.*
2. *Transportation infrastructure spending should not be funded through bonding or other mechanisms that conceal the true cost to federal taxpayers.* Private activity bonds, like those allowed for in the Administration's bill, are appropriate because there is no Federal involvement or liability. SAFETEA would allow States and municipalities to issue up to $15 billion in tax exempt bonds for transportation facilities that are privately developed and operated. The only Federal cost involved is the exclusion from Federal income tax of the interest on these bonds. Tax credit bonds, bonds issued by special purpose entities, and earmarked Treasury bonds all burden the Federal taxpayer and are, therefore, unacceptable.
3. *Highway spending should be financed from the Highway Trust Fund, not the General Fund of the Treasury.* All spending for highways should be authorized and appropriated from the Trust Fund and derived from taxes imposed on highway use, thereby maintaining the link between Trust Fund revenues and highway spending.

If a surface transportation reauthorization bill that breached any of these three principles were presented to the President, his senior advisors would recommend that he veto the bill.

We look forward to working with you to ensure timely enactment of a fiscally responsible 6-year authorization bill. Our States, counties, and cities are depending on the certainty of a multi-year authorization bill to plan properly for improvements to their surface transportation infrastructure. Thank you for your consideration.

Sincerely,

Norman Y. Mineta
Secretary of Transportation

John Snow
Secretary of the Treasury

Mr. SNOW. No, we are saying that—as reflected in that penultimate paragraph on the second page, that if any of the three principles are breached, the President's senior advisors would recommend a veto.

Mr. RYAN. Okay. So, you will recommend a veto. You can't say whether or not the President himself will decide whether or not. Is that what you are saying?

Mr. SNOW. No, I can't speak for the President. This letter was——

Mr. RYAN. I am just trying to understand some of the language in this letter. Is the $256 billion within that recommendation?

Mr. SNOW. Well, the $256 billion is within the recommendation and the principles.

Mr. RYAN. Okay.

Mr. SNOW. So, the principles are the framework.

Mr. RYAN. It is the principles and the $256 billion, okay. Last point, because I know our time is moving around here: you have heard all of these Members talking about making the tax cuts permanent. Let's just examine what the facts are in this case here.

We are not talking about the making the tax cuts permanent; we are talking about preventing massive tax increases. What will happen is, if these tax cuts expire, they will increase. So, the questions here are whether or not we are going to increase taxes on the

American workers and whether or not we are going to take the marriage penalty from $1,000 and cut it in half to $500.

The child tax credit, whether or not we are going to take the marriage penalty which we have eliminated, put it back into place; whether or not we are going to raise income tax rates on every worker who pays income taxes or not; whether or not we are going to take the small business tax rate, which is now down to the level of the corporate tax rate, and make small businesses again pay higher tax rates than small businesses; whether or not we are going to cut 401(k)s, IRAs, stop making pensions portable; whether or not we are going to raise taxes on capital, like dividends and capital gains.

So, I think it is important that we put this in perspective, that what we are talking about here with this tax bill, which is clearly a source of the recovery we are experiencing, is whether or not we are going to increase taxes massively on all sectors of the American economy—the investment sector of our economy, the capital sector, or the working sector, the labor sector. So, my quick question is, have you established an economic and analytical link between the recovery we are now undergoing and the tax cuts that took place in July?

Mr. SNOW. Absolutely.

Mr. RYAN. Could you elaborate on that, please?

Mr. SNOW. The clear, causal effect we estimate that those tax reductions have raised GDP by a few percentage points and the failure to have enacted these tax proposals would have increased unemployment by millions of jobs. The failure to proceed, as you suggest, would result in about 111 million taxpayers having an average tax increase of about $1,500. It would mean 5 million individuals and families, who currently have no income tax liability, having a tax liability. A family of four earning $40,000 would have a tax increase of $2,000.

I could go on and on, but the consequences would be devastating for the economy, and we would never see—in my view, we would never see that $19.5 trillion economy that we had in our budget forecast out there in 2014, and we would never see the $150 trillion or so of GDP over those intervening years if—if the terrible mistake of failing to act to make these permanent were to occur, because this is a tax increase.

Mr. RYAN. Well, Congressman Hulshof and I were the authors of a bill to make those tax cuts permanent or to prevent that tax increase, and we will again be introducing that legislation to do so. We look forward to working with you on it.

Mr. SNOW. Thank you very much, Congressman.

Chairman THOMAS. I thank the gentleman. Does the gentleman from Texas, Mr. Sandlin, wish to inquire?

Mr. SANDLIN. Yes. Thank you, Mr. Chairman. Thank you, Mr. Secretary, for coming today. I want to ask a few little questions building upon this idea of permanency. If tax cuts were made permanent in 2011, the 1 percent of households with the highest income, it looks like, will receive about one-third of the total benefits of the cut. Would that be correct?

Mr. SNOW. Congressman, I have—I will have to check and see. I am not sure. What I am sure of is that the top taxpayers, the top 1 percent, 2 percent, 5 percent, pay more of the national income tax bill after this tax bill than they did before.

Mr. SANDLIN. Certainly, because they have more money. Now that would amount to an average tax cut of about $58,220 for filers in the top 1 percent in 2011; is that correct?

Mr. SNOW. I would have to confirm that. I don't have that in front of me.

Mr. SANDLIN. Okay. Then in the middle, folks that are in the statistical middle of the middle class, they receive about $655 per year; is that correct?

Mr. SNOW. Congressman, again, I would have to go back and check those numbers.

Mr. SANDLIN. If that was true, then it seems that we are getting our priorities a little bit mixed up; would you agree?

Mr. SNOW. Congressman, the statistics I have—and I will be happy to share them with you and the Committee—indicate that the tax, the proportion of the total income taxes paid by top-income people, the top 2 percent, 5 percent, 10 percent, rises, is higher than it was before the tax reductions were put into effect.

Mr. SANDLIN. Okay.

Mr. SNOW. So, they are paying a higher share of the burden.

Mr. SANDLIN. Okay. Those proportions and those averages and those burdens are all charming answers to a different question. The point I am making is that the folks in the top 1 percent are going to get $58,220 a year, and the folks in the middle are going to get $665 a year; and we would could reverse that and make sure the folks in the middle have more of the tax cut, regardless of any proportions or burdens or other fancy average that is come up with by the Treasury.

Speaking of those priorities, now the budget does show $936 billion for permanent extensionary cuts.

Now let me ask you some things that we have not talked about today. I notice that the Administration has proposed $3.6 billion in funding for first responders to help local agencies respond to terrorist attacks and things of that nature; is that correct?

Mr. SNOW. If you say so. If it is in the budget, then I would agree.

Mr. SANDLIN. All right. That would be an 18-percent cut to our first responders, the folks that are on the frontlines of responding to terrorist attacks. That would be an 18-percent cut.

Now we move on to the Federal Aviation Administration, where you propose $2.5 billion in funding for the air traffic control system. Would that sound about right to you?

Mr. SNOW. Congressman, if it is in the budget, if you are reading it, I agree with it.

Mr. SANDLIN. All right. So, then you would agree that would be a 14-percent cut for our air traffic control system.

We have got $19.1 billion for the U.S. Department of Agriculture's discretionary spending programs, things like food safety, which is very hot right now, forest management, conservation, rural development programs; and that would be an 8-percent cut, which you would agree with because it is in the budget.

Then, as has been brought out today, I notice that this entire budget has not one thin dime in it for anything on the war in Afghanistan or the war in Iraq, not a penny; isn't that correct?

Mr. SNOW. Yes. However, we have indicated there may well be a supplemental.

Mr. SANDLIN. Well, there may be a supplemental, that is right, which means this entire budget is a sham. If we know we are going to spend money and we know we have a budget, it ought to be in the budget, not coming up with some interim thing that is not correct, smoke and mirrors, to say we are going to have another budget later.

The budget needs to reflect exactly what the government is going to spend. We need to be able to compare the revenues and what we are going to spend, and this thing is a sham.

Mr. SNOW. I think the sham would be if we put in numbers we didn't know.

Mr. SANDLIN. Do you think we are going to spend anything in the war? Can you anticipate what we will spend? Don't you have a request of about $50 billion right now for the war in Iraq and Afghanistan, or is that incorrect?

Mr. SNOW. Congressman, we will bring forward the numbers once we have a handle on them.

Mr. SANDLIN. Don't you have a proposal for about——

Mr. SNOW. I don't know what that number would be.

Mr. SANDLIN. What did you spend last time? What was the last request, $87 billion? Don't you know about what it is going to be? You know that there is some amount of money that is going to be required, and there is nothing in there.

Mr. SNOW. No. The circumstances there are changing.

Mr. SANDLIN. Oh, you think you are going to get all our allies to chip in and pay for this like they have done in the past?

Mr. SNOW. I am saying it is a fluid situation. The environment is changing, and we will know more about it when we submit that supplemental, if in fact we do.

Mr. SANDLIN. Well, let me ask about education then. We have got $13.3 billion in Title 1, which is $7.2 billion below the authorized amount. I see my time is out, but I would just like to make—just in closing make the point that Pell grants are cut, the Community Orientated Policing Services program is reduced by 83 percent, almost eliminating it, and certainly we have lost manufacturing jobs.

I would like to give you this chart at the end. We talked little about jobs, showing Nevada is the only State in the whole Nation since January 2001 with an increase in manufacturing jobs. It just seems like when you said we are on a path to substantial economic growth, it was just the top 1 percent, no teachers, no veterans, no workers, no one else. Thank you.

Chairman THOMAS. The gentleman's time has expired. Does the gentleman from Arizona, Mr. Hayworth, wish to inquire?

Mr. HAYWORTH. Yes, thank you, Mr. Chairman. I appreciate the time. I appreciate my friend from Texas for offering a really stark relief about the roles that we play here in the Congress of the United States, because from that side of the aisle we have heard—at least what I have heard so much of is great objections to money being spent. Now we hear some different areas where there are alleged deficiencies, and we will debate just what effectiveness can mean in that regard.

We have also heard again the shopworn observation that anyone who succeeds is somehow not entitled to tax relief. That would include scores of small businesspeople who create the jobs that fuel the economy.

That is a debate for another day and we will go ahead and concede that many on the other side of the aisle think there is no higher and better use of the people's money than to send it here to Washington, D.C., to be utilized by the government. That is—that could be a legitimate view in some people's minds. However, those of us on the other side believe that people are empowered when they have their own money to save, spend, and invest.

In the State of the Union message, the President took a look at another area of great concern to Americans, and that is health care. Mr. Secretary, by some estimates, over 40 million Americans currently are without health insurance, and many say they don't have health insurance because it is too expensive. By your estimates, how many Americans would be able to obtain health insurance as a result of the proposal we have heard about from the President for a refundable tax credit for health insurance?

Mr. SNOW. Congressman, we have varying estimates on that, but I think it would reduce the number of uninsured by 4 to 6 million.

Mr. HAYWORTH. Four to 6 million?

Mr. SNOW. Of the 40—I think that is right. I will correct the record if it is wrong, but that is my recollection.

Mr. HAYWORTH. Something else that was mentioned by the President and really part of legislation we passed, as part of Medicare reform again, is a proactive stance to be taken by the American people in terms of saving their own funds, tax free, the HSA proposal. As we move to see that be implemented, what would be the number of uninsured who would be able to get insurance through HSAs through their proactive action?

Mr. SNOW. I have actually heard higher numbers on that. That is a terrific program. It makes people better consumers of health care. It helps to drive down health care costs as they become better consumers, it also helps them to buildup, accumulate some wealth that they can use for health care. So, it reduces the number of uninsured, but even more importantly, in some ways it just changes the dynamics of health care delivery.

Mr. HAYWORTH. This again points out—remembering the comments of my friend from Texas, this points out another fundamental difference. When we allow people to have their own resources, to spend their own dollars rather than looking to a government bureaucracy, a Washington bureaucracy and a command and control model.

I think the people of the Fifth District of Arizona are pretty smart. They are going to make decisions based on what is good for them and their families, and if they have those resources tax free, that can make all the difference in the world; and that, again, is another part of this debate.

Good people can differ, but I think we have profound promise at our doorstep in terms of HSAs and what that can engender for the American people.

So, we look forward to working with you and the Administration to again put citizens back in charge of their health care, rather than looking at command and control. I thank the Secretary and thank the Chairman.

Mr. SNOW. It won't surprise you that I am in fundamental agreement. The debate really is on over reliance on markets in choice and competition versus government provision of health care. I think the evidence is pretty clear that as we move more and more into a choice competition and market-based health care system, we will get better coverage and better health care and better results.

Chairman THOMAS. I thank the gentleman. Does the gentleman from Michigan, Mr. Camp, wish to inquire?

Mr. CAMP. Thank you Mr. Chairman. Mr. Secretary, thank you for being here. I just want to comment on a portion of the President's budget and that is on the adoption tax credit. Thank you for your effort there. As a Co-Chairman of the Congressional Coalition on Adoption, I think making an adoption credit available to more people will be beneficial.

I also want to mention, I do think that the lower taxes and lower tax burden have created a pro-growth economic environment, and I think particularly driving that has been the 50-percent expensing for small businesses. The lower capital gains have helped with that growth. Obviously, the lower income tax marginal rates have helped as well. In Michigan, though, we have seen a great deal of loss of manufacturing jobs, most recently with the announcement of Electrolux, which is located in my district, taking 2,700 jobs in a community of 8,000 people to Mexico.

I appreciate the increase in the trade adjustment assistance in the President's budget, which I think will be helpful to those employees, but I wondered, to what extent do you see these policies affecting the manufacturing sector? Some of the recent information we have gotten shows that that does continue to grow after 3 years of contracting. Particularly in a State like Michigan we are very hard hit.

I wonder if you could just comment on the manufacturing sector and how you see the President's policies affecting that in a positive way.

Mr. SNOW. Well, first of all, Congressman, let me say the manufacturing sector is a vital part of this economy. I grew up in a part of the world where it was—Ohio and Michigan and so on, where you saw manufacturing everywhere.

It remains a vital part of our economy. We sometimes lose sight of the fact that manufacturing activity in this country still accounts for a big part of the economy. It is about $1.6 trillion. If we only had a manufacturing economy and nothing else, we would be the fifth or sixth largest economy in the world. So, our manufacturing economy is 50 percent larger than the whole economy of China, plus.

It has been a difficult time, and this recession that started in manufacturing back in the summer of 2000 hit with a particular harshness and brutality. It has been a brutal time for the manufacturing sector. I am aware of that.

It is beginning to come back. That is the good news, it is beginning to come back. I unfortunately can't say that all the jobs will come back but, it is beginning to show some good progress.

Keeping the economy strong is absolutely the centerpiece. If we don't have a strong economy, then our manufacturers can't do well. We also have to address this issue of the fairness of the international tax system on manufacturers and producers in the United States, something that we have talked about before.

We also, it seems to me, have to be focused on getting the rest of the world growing faster. One reason our manufacturing sector has suffered is growth rates in Japan and in Europe have been so low, anemic growth rates, which means that our manufacturers don't have the market.

So, there is a whole collection of things we need to be doing—including I would say—tort reform, continuing to focus on lower-cost health care, and an energy policy that makes reliable energy available.

Mr. CAMP. Thank you. Just shifting gears a little bit to the LSAs and RSAs, it seems to me that if a small businessowner, particularly, can save significant amounts through those two individual accounts that that might make them less likely to maintain an employer-sponsored pension plan for their employees, such as a 401(k).

Do you believe that those accounts may in some unintended way undermine or significantly diminish the employer sponsored accounts?

Mr. SNOW. Congressman, that has been a subject that we have examined, have looked at, looked at hard actually, because we have heard from a number of people on this subject. In our view, the LSAs will not have that effect.

We had talked about earlier—the Chairman knows—an eligibility amount of $7,500, and we reduced it to $5,000. Reducing it by that amount, I think, tends to deal with the issue you were raising and the Chairman raised with us, too, and mitigates that effect. I can't say we eliminate it entirely, but we make it far less of a problem.

Mr. CAMP. All right. Thank you very much.

Chairman THOMAS. I thank the gentleman. Does the gentlewoman from Ohio, Ms. Tubbs Jones, wish to inquire?

Ms. TUBBS JONES. I do, Mr. Chairman. Thank you very much. Secretary Snow, how are you, sir?

Mr. SNOW. Good, thank you.

Ms. TUBBS JONES. The last time we met we were talking about a budget, and I asked you why there was no inclusion of dollars in the budget for the war on Iraq. If I recall your answer, it was that the President doesn't want to go to war and that is why there is no money in the budget for Iraq.

Now we have been to war. We are still at war. Why is there no money in the budget for Iraq, and we are over there?

Mr. SNOW. Well, last time when you asked me the question, I gave you the best answer I could, which was I don't know what we are going to be doing in Iraq.

Ms. TUBBS JONES. Let me get the script, and I will bring it to you. Regardless of that answer, the question is, why is there no inclusion of Iraq in this budget?

Mr. SNOW. The Administration has indicated that in all likelihood there will be a supplemental at some point, but only when we have a better handle on what would be required in that supplemental.

Ms. TUBBS JONES. So, in fact, the budget that you have presented, or that the Administration has presented, for this upcoming year does not fairly reflect what you anticipated the cost to be for our country?

Mr. SNOW. It reflects it as well as we can reflect it at this time.

Ms. TUBBS JONES. Now, would you, as a businessman, present a budget like this to your board and they be accepting of it, knowing that you know there are going to be expenses in Iraq, sir?

Mr. SNOW. Congresswoman, if there was an expense that I thought was coming, but I didn't know what it was, I would tell the board just that.

Ms. TUBBS JONES. Just wait on you, right?

Mr. SNOW. Which is what we are doing with the Congress.

Ms. TUBBS JONES. Okay. Let me ask you a few more questions. When you put in place the tax cut that the President proposed and that we are discussing, it was anticipated that so many jobs would be created by that tax cut. Do you recall what that number was, sir?

Mr. SNOW. Yes, I think I said there would be—we anticipated something like 500,000 jobs after the tax cuts were put into effect. We fell short of that.

Ms. TUBBS JONES. The 5,000 jobs per——

Mr. SNOW. Well, it was in the period subsequent to the tax cut's being put into effect in 2003. We fell short of that, but there were 250,000——

Ms. TUBBS JONES. Wait a minute. Back up. You said that there were 510,00 jobs per month that would be created by the tax cut; did you not, sir?

Mr. SNOW. Oh, no. No, no, no, no. The private——

Ms. TUBBS JONES. What was the number? What is the number?

Mr. SNOW. Well, as I say, I think we foresaw something on the order of, annualized, a million jobs and in our numbers—I would have to go back and check—and we got half a year of it. So, 500,000 would be a rough estimate, and we got half of that. Of course, it takes a while for the full effect of the tax plan to take effect. The private forecasters are now saying that we will have something like 2 million jobs created.

Ms. TUBBS JONES. No, actually the private forecasters said 500—excuse me, 306,000 a month. That was—the Council of Economic Advisers said 306,000 a month; and we are nowhere near that, are we, sir?

Mr. SNOW. I don't recall that number. I do know——

Ms. TUBBS JONES. Well, here. It is on a piece of paper. I will let you read it later. Let me go on and ask you another question then, sir.

Mr. SNOW. Okay.

Ms. TUBBS JONES. Of this year's $521 billion deficit, the tax cuts amount to $272 billion; is that a correct statement, sir?

Mr. SNOW. I think that is our budget number, yes.

Ms. TUBBS JONES. In 2009, when the Administration projects that it will have cut the deficit in half to $239 billion, the tax cut extension it demanded yesterday will cost us $183 billion. Is that correct, sir?

Mr. SNOW. Congresswoman, I don't have the numbers there. If you are citing from our budget, I will agree with our budget.

Ms. TUBBS JONES. Well, here we go again. The last time it was—you are the Secretary of the Treasury; is that correct, sir?

Mr. SNOW. I don't have the budget in front of me.

Ms. TUBBS JONES. You came before a congressional hearing, Committee on Ways and Means, and you should have had it in front of you so you could answer some of the questions.

Mr. SNOW. We do have the budget, and I will tell you. Here, let's take a look at the budget.

Ms. TUBBS JONES. Let me go to another point. You said earlier, Mr. Snow, that you are estimating that under the health service—HSAs that we will have an additional 4 billion or 15 billion—excuse me, 4 billion persons that will have health care available to them with the HSAs. Is that what you said, sir?

Mr. SNOW. Four billion, no.

Ms. TUBBS JONES. I said 4 million, sir. I didn't say 4 billion; I said 4 million.

Mr. SNOW. That is our estimate, and I said I would certify that for the record, what our estimate is.

[The information follows:]

There may have been some confusion during testimony over the specific health proposals being discussed and the estimates for coverage relative to them. The proposed Health Insurance Tax Credit is designed to make health insurance more affordable for low—and moderate-income individuals and families. We estimate that between four and five million currently uninsured individuals will use this credit to help them purchase health insurance coverage.

With regard to Health Savings Accounts (HSAs) that are already part of current law, the President has proposed a new above-the-line deduction for high deductible plan premiums that could be used in conjunction with HSAs. The principal purpose of this proposal is to slow the rapid increase in health care expenditures by encouraging individuals to be more cost conscious in their day-to-day health care decisions and to help level the playingfield between insurance purchased in the employer and individual markets. Even so, the combined proposals are also meant to encourage uninsured individuals to obtain health insurance coverage, although the extent of that additional coverage cannot be estimated with a specific degree of accuracy at this time.

In addition to tax incentives for the purchase of health insurance, the President's budget includes other proposals, such as Associated Health Plans (AHPs) and provisions related to Medicaid and SCHIP, which will further reduce the number of uninsured individuals.

Ms. TUBBS JONES. Under the tax credit there would be some additional millions.

Mr. SNOW. There would be some additional.

Ms. TUBBS JONES. Well, maybe it was 4 billion in total for both of the programs. I believe I made a note. Under your budget, the HSAs is estimated to cost $25 billion and the tax credit $16 billion.

Mr. SNOW. Over the life of the budget, through 14 years, I think. Is it?

Ms. TUBBS JONES. I don't believe that is what you said, sir. If you do the numbers or do some addition and subtraction—can I finish? Or if I can't, Mr. Chairman, Mr. Secretary, I am going to have some other questions for you I would like to submit to you in writing, because the people from Ohio who are out of jobs are looking for your idea of how we are really going to get jobs back in this country.

Mr. SNOW. Congresswoman, we are committed to getting jobs back. I think the growth path that the economy is on right now is the surest way to produce those jobs.

Ms. TUBBS JONES. They haven't so far.

Mr. SNOW. Well, they have begun to and I think we will see many more jobs created in the year ahead.

Ms. TUBBS JONES. Thank you, Mr. Secretary. Thank you, Mr. Chairman.

Chairman THOMAS. The gentlewoman's time has expired. Does the gentleman from Florida, Mr. Shaw, wish to inquire?

Mr. SHAW. Thank you, Mr. Secretary. I compliment you for the thick skin that you have developed. I know it is not easy to be sitting there for several hours answering questions from Members and particularly Members of the other party.

I would like to go back, and I know my colleague, Mr. Matsui, questioned you with regard to page 5 of your prepared statement regarding Social Security. I complimented you for including in your statement reference to the young people.

This Committee, and I as Chair of the Subcommittee on Social Security, have been holding hearings on college campuses. We have gone to the University of Missouri and then just a week ago we went down to Boca Raton to Florida Atlantic University. All the time, I am concerned that there seems to be apathy among our young people; and the young people should be the ones that are really charged and most involved in this debate. You recognized this in your speech, and the President has recognized this.

Young people coming through the system today will pay more in than their mothers and fathers, and the program is not near as safe as it was. What we used to have, when it was first created, 40 workers per retiree, now has dwindled down to three-point-some, and before long it will be two-point-some. Beginning about 12, 14 years from now we are going to see that we don't have enough money coming in to pay the benefits. We are going to have to find the money to pay off the Treasury bills unless Congress acts now.

I know you have championed, as the President has, individual accounts. However, there is one thing that does concern me, that I think we need to be sure the record is quite clear on.

I know Mr. Matsui used the word "privatization." There is no one that is responsible, that I know of, that is saying that we are going to privatize Social Security. The Social Security Administration is going to stay in place. The Social Security Administration is going to be the one that is responsible for paying out the benefits, and that is where the checks are going to come from, and we are going to have to continue to pay money into the Social Security Administration in order to keep afloat.

I do—and connecting this to the budgetary problems, when we start putting money, if we do it directly from the Treasury, putting money into the IRAs, that money, those accounts, will be there and they will grow and their growth, as well as their very existence if the beneficiary lives to retirement. Under all the plans that I am aware of, that money, or the value of that individual account will then go back to the Social Security Administration to help pay benefits. This is an important thing, and I think we need to start looking at it right now.

What effect is that going to have on the Federal budget? Do you have to call it an outlay and treat it as an expenditure when it is money that you are actually investing in the future of the Social Security system and in all likelihood will come back to the Social Security Administration?

I think the Federal budget—I have been concerned for many years—isn't really an accurate snapshot of where we are or where we are going because it is strictly on a cash basis.

Another example which I think is somewhat outrageous is, if we buy a Federal building or build a Federal building, the entire cost of that building goes out in the budget as if it were paying rent instead of being able to capitalize it.

We need to start thinking about capital budgeting in some way, as you did in the private sector; and I think all of us, all of us do that have had any experience in business. Would you like to comment on some of that?

Mr. SNOW. Yes, yes, I will. I would, Congressman, begin with complimenting you for your role in calling to the attention of the American public the issue we confront.

Somebody observed that the demographics is destiny. What we are dealing with here is the immutable laws of demographics. As the baby boomers retire, we are going to find in just a few years—just around the corner we are going to find that the number of workers paying in, the ratio of workers paying in is going to decline quite remarkably compared to the people receiving benefits. That fundamental equation is what is driving the results here.

You are absolutely right. Nobody is talking about privatization. What we are talking about is some private individual accounts to supplement the Social Security system. Social Security, as you have pointed out many times, is a sacred commitment, and violating that commitment is unthinkable. The system is not on a financially sustainable basis at the present time.

That is why the President made that an issue in his campaign 4 years ago. It is why he called for the national commission. It is why he has proposed these accounts. Due to the President's efforts and people like you, we are getting that national dialogue, which will point at some point to the resolution on capital budgeting.

I agree with you, we need to move in the direction of capital budgets because our current budgets don't properly reflect the real financial conditions for the reasons you articulated. I very much agree with those sentiments.

Mr. SHAW. Thank you, Mr. Secretary. My time has expired, but I just want to close by saying we have to work together to give the young people of this country a wake-up call as to what is in store for them by a Congress that refuses to act on their behalf.

Chairman THOMAS. We thank the Chairman of the Subcommittee on Social Security. Mr. Secretary, on behalf of the Committee, I want to thank you for allowing every Member who wished to inquire the ability to inquire. It doesn't always happen, and we are very appreciative. Without any further comments, the hearing stands adjourned.

[Whereupon, at 4:47 p.m., the hearing was adjourned.]

[Additional questions submitted by Ms. Tubbs Jones to the Honorable John Snow, and the response follows:]

Washington DC, 20515
February 5, 2004

The Honorable John W. Snow
Secretary of the Treasury
Department of the Treasury
1500 Pennsylvania Avenue, N.E.
Washington, DC 20220

Dear Secretary Snow:

Thank you for your recent testimony before the Ways and Means Committee on President George W. Bush's Fiscal Year 2005 budget. As I mentioned during the Committee Hearing, I am respectfully seeking information related to the Administration's estimates of participation in both the proposed Health Insurance Tax Credit Program, and the new Health Savings Accounts (HSAs).

I understand that the Department of Treasury is responsible for calculating the cost or revenue estimates for these two programs. In calculating these estimates, assumptions are made with respect to the number of taxpayers projected to participate in the programs, and the coverage status of those taxpayers both before and after enrolling in the particular program. Other assumptions are also made. Accordingly, I would like to know the following projections for the specified programs, all of which I believe you have calculated in order to derive your cost estimates.

1. Relative to the proposed Health Insurance Tax Credit program, please provide your projections of the number of taxpayers who will claim the refundable tax credit:

   A. The number of taxpayers anticipated to receive the full tax credit (e.g., individuals whose incomes are under $15,000 and families whose incomes are under $25,000).
   B. The number of taxpayers to receive a partial tax credit (e.g., those with incomes above the levels specified in 1 a).
   C. The number of taxpayers who are projected use the 90 percent premium cap option instead of the dollar limit.
   D. Please provide an estimate of the number of taxpayers claiming the tax credit who were previously uninsured.
   E. Of the previously insured in (1c), how many taxpayers claiming the credit have previously participated in an employer-provided program, and how many individuals have participated in public programs such as the Children's Health Insurance Program and Medicaid?

2. I am also requesting the following information from your estimate of the impact of Health Savings Accounts on the budget.

   A. How many individuals are anticipated to establish tax-preferred HSAs as enacted in House Resolution 1?
   B. Of the number cited in (2a), how many individuals have been previously uninsured, and what is the expected income distribution of participants?
   C. Please provide the number of individuals projected to use the deduction for high-deductible policies as proposed in the President's budget.
   D. Of the number cited in (2c), how many individuals have been previously uninsured?
   E. What is the average tax benefit or savings for those who establish HSAs?
   F. What amount of Hospital Insurance payroll tax revenue and Social Security payroll tax revenue is projected to be lost as a result of HSAs?

I would appreciate a response to the questions above prior to the Ways and Means Hearing scheduled for Wednesday, February 11, 2004.

Please contact Mr. Brian Gage or Ms. Shashrina Thomas of my staff at (202) 225–7032 by Tuesday, February 10, 2004, or by facsimile at (202) 225–1339.

I look forward to working with you throughout the duration of the second session of the 108th Congress, and thank you for your attention to this matter.

Sincerely,

Stephanie Tubbs Jones
Member of Congress

U.S. Department of the Treasury
Washington, DC 20220
April 13, 2004

The Honorable Stephanie Tubbs Jones
U.S. House of Representatives
Washington, DC 20515

Dear Ms. Tubbs Jones:

I am writing in response to your letter to Secretary Snow requesting information related to the Health Insurance Tax Credit proposed in the President's Budget and the new Health Savings Accounts (HSAs). I apologize for the delay in responding to your letter.

The proposed Health Insurance Tax Credit is designed to make health insurance more affordable for low—and moderate-income individuals and families. You requested information about participation in this credit. We estimate that between four and five million currently uninsured individuals will use this credit to help them purchase health insurance coverage.

You also requested information about HSAs, which, as you noted, are already part of current law. The President's new proposal for an above-the-line deduction for high deductible plan premiums could be used in conjunction with HSAs. The principal purpose of this proposal is to slow the rapid increase in health care expenditures by encouraging individuals to be more cost consciousness in their day-to-day health care decisions and to help level the playingfield between insurance purchased in the employer and individual markets. Even so, the combined proposals are also likely to encourage some uninsured individuals to obtain health insurance coverage, although the extent of that additional coverage cannot be estimated with any degree of confidence.

In addition to tax incentives for the purchase of health insurance, the President's budget includes other proposals, such as Associated Health Plans (AHPs) and provisions related to Medicaid and SCHIP, which will further reduce the number of uninsured individuals.

I look forward to working with you to help make health care more affordable and to increase health insurance coverage.

Sincerely,

Gregory F. Jenner
Acting Assistant Secretary (Tax Policy)