DEPARTMENT OF THE TREASURY BUDGET PRIORITIES FOR FISCAL YEAR 2002

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BEFORE THE

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CONTENTS

DEPARTMENT OF THE TREASURY BUDGET PRIORITIES FOR FISCAL YEAR 2002

THURSDAY, MARCH 1, 2001

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

The committee met, pursuant to call, at 3:05 p.m., in room 210, Cannon House Office Building, Hon. Jim Nussle (chairman of the committee) presiding.

Members present: Representatives Nussle, Sununu, Bass, Gutknecht, Hilleary, Thornberry, Miller, Watkins, Culberson, Brown, Putnam, Spratt, Bentsen, Davis, Clayton, Price, Clement, Moran, Hooley, McCarthy, and Moore.

Chairman NUSSLE. I call the committee back to order. This is the second half of hearings for today, full committee hearings on a blueprint for now beginning the President's budget for fiscal year 2002 through 2011. This morning, as we know, we heard from the President's Director of Office of Management and Budget, and this afternoon we have the opportunity to hear from the Secretary of the Treasury, the honorable Paul O'Neill. We welcome you, Mr. Secretary, to the committee. Your entire testimony will be part of the record and so you may summarize your testimony.

I have no further opening that I would like to make. I would invite Mr. Spratt if he would like to make an opening.

Mr. SPRATT. Just quickly in order to say welcome to Secretary O'Neill and welcome to Washington as well. You come here from a very distinguished background in business and also from some distinguished experience in government. We are glad to see the Bush administration attracting people of your caliber and talents. I am sure in the next few years we will disagree on some things, but—probably in the next few minutes we will disagree on some things. Nevertheless, we are delighted to have you and glad to you see at your post.

Chairman NUSSLE. Mr. Secretary, you may proceed.

STATEMENT OF HON. PAUL H. O'NEILL, SECRETARY, UNITED STATES DEPARTMENT OF THE TREASURY

Secretary O'NEILL. Thank you, Mr. Chairman, Mr. Ranking Member, and distinguished Members of the Congress. It is a great pleasure to be here. I know you had a very long session this morning and my colleague Mr. Daniels, I am sure, told you everything that you wanted to know and responded fully to your questions. And I would be willing to bet you that he started with a quick summary of what it is the President has proposed, and rather than spend your time repeating again what I hope you all now know well from the President's remarks the other night, then your testimony from Mr. Daniels this morning, I am going to, with the Chair's permission, submit my prepared statement for the record and answer the questions that you have for me.

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

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

Good afternoon Chairman Nussle, Congressman Spratt, and members of the Committee. It's a pleasure to be here with you today.

President Bush unveiled his budget this morning, and it is full of good news for the American people. First, it funds America's priorities, especially in education. Second, it walls off every dollar of the Social Security surplus and proposes Medicare reform to strengthen retirement security for every generation. And finally it reduces individual income taxes, to eliminate the structural overtaxation that has created a tax surplus today.

There's no question that the numbers in the Federal budget are enormous. We are proposing $1.9 trillion in government spending for next year alone. For the next 10 years, total spending will be over $22 trillion. These are changes of an entire order of magnitude since the last time I served in Washington. In fact, this year's projected budget surplus of $281 billion is almost as large as the total on-budget government spending in my last year of service in Washington. That's evidence of how much our economy has grown, and how much Washington has grown.

The Federal budget surplus is projected to be $5.6 trillion over the next 10 years. And this is a fairly conservative estimate, given that we've underestimated the surplus several years in a row now. Even after setting aside the Social Security surplus, there is plenty of room for a $1.6 trillion tax cut. The numbers are big, but the math is fairly simple: Start with the $5.6 trillion surplus, take away $2.6 trillion in Social Security surplus and $1.6 trillion for tax relief, and we are left with a $1.4 trillion cushion to address our priorities—beginning with Medicare reform, to service the debt, and to be prepared for unexpected needs.

This is a fiscally prudent budget. Under this plan, we will pay off a large portion of the publicly held debt over the next 6 years. Washington ran deficits instead of surpluses for so long that no one gave much serious thought to the prospect of retiring our debt instruments before they mature. Only now, as we face the reality of rapidly mounting surpluses, are we confronted with serious questions about the potential impact of buying back the publicly held debt from a public that may not be willing to sell it all back early.

The debt held by the public will amount to $3.2 trillion at the end of this year. Retirement funds, state and local governments and foreign investors all have come to rely on the security of U.S. Treasuries. It could be very costly—if not impossible—to retire all of those holdings prematurely. Moreover, there needs to be a replacement opportunity for them. Experts are already thinking about alternatives to Treasury Securities for use by the Federal Reserve and others, but these are novel concepts that will take time to put in place.

In addition to systemic adjustment questions, there are cost questions related to paying off the entire publicly held debt. In testimony before the Senate Budget Committee, Fed Chairman Alan Greenspan explained it this way: "some holders of long-term Treasury securities may be reluctant to give them up, especially those who highly value the risk-free status of those issues. Inducing such holders, including foreign holders, to willingly offer to sell their securities prior to maturing could require paying premiums that far exceed any realistic value of retiring the debt before maturity."

Under the assumptions supporting the President's plan, we pay off all but this "non-retireable" debt by 2008. While we are paying off the retireable debt, the plan also increases spending on education next year by 11 percent, increases defense spending next year by $14 billion, and provides $661 billion in overall discretionary spending next year. Discretionary spending will increase by 4 percent, more than enough to account for inflation and address real needs.

Some want to increase spending even further. We disagree. Instead of simply piling on new spending, we must be better stewards of the taxpayers' dollars. We have overlapping programs throughout the government with little or no information on how well they deliver services to the taxpayers. We need to find out where we are getting results and where we aren't, and adjust Federal spending accordingly.

Once we've paid down the debt that can be retired, walled off Social Security funds where they can't be drained for other government spending, and increased spending for America's priorities, we face the question of how to use any additional surplus dollars. If they aren't returned to the taxpayers, they can only be spent in Washington, creating new government programs or buying up private assets. Government is big enough, and it has no business owning private companies.

People make better decisions than government about how to spend their money. That's why we must eliminate structural overtaxation and let people keep more of what they earn.

Today the Federal individual income tax burden is higher than at any other time in our nation's history. We have no business taking from taxpayers more than it costs to pay for agreed public purposes.

The President has proposed tax relief that reinforces the values that make America great—opportunity, entrepreneurship, strong families and individual success.

First, the President has proposed reducing income taxes for every American who pays income taxes. The current five rate system will be simplified to four rates, and the tax rate on the first $6,000 of taxable income earned by every American will fall from 15 to 10 percent.

High income tax rates block access to the middle class for working Americans struggling to get ahead. And high income tax rates punish success. We must have a tax code that keeps the American Dream in everyone's reach and helps people move up the economic ladder of success. We must have a tax code that fosters entrepreneurship and does not penalize hard work.

Cutting income tax rates is the most effective fiscal policy action we can take to put our economy back on the path of long-term economic growth. The best minds in this nation contain incredible knowledge and creativity. If we work together to unleash that potential, we can achieve permanent high rates of growth that will make all our other goals more achievable.

The President's tax relief plan also strengthens the ties that hold families together.

- It doubles the child tax credit to $1,000 per child. Parents everywhere have one goal above all others: to give their children the best possible opportunity for success and happiness in life. The increased child tax credit will give parents more resources to save for college tuition, pay for braces or hire a tutor.
- This plan also reduces the unfair marriage penalty. We as a society celebrate when two people decide to spend their lives together. Why would our tax code punish them?
- And this plan eliminates the unfair death tax. Government has no business confiscating the legacy parents work their entire lives to build for their children.

This package is a pay raise for working Americans. Four-person families earning $35,000 a year will no longer bear any Federal income tax burden. Four-person families earning $45,000 will see their income taxes cut in half. And four-person families earning $75,000 will see their income tax burden reduced by 22 percent.

The President's tax relief plan maintains the progressivity of our tax code—and, in fact, increases the share of Federal income taxes paid by upper-income taxpayers. In 1998, the top 10 percent of income earners paid 65 percent of Federal income taxes, while the bottom half of income earners paid 4.2 percent of the total Federal income tax burden. After implementing the President's tax relief plan, the top 10 percent of income earners will pay 66 percent of all Federal income taxes. The average family will keep $1,600 a year that they would otherwise have sent to Washington. That's enough for 2 monthly mortgage payments or for a year of junior college tuition.

Taxpayers in the higher tax brackets are likely to invest their tax relief in the economy, creating jobs for all Americans. Small businesses are the engine of growth in our economy, and a majority of small businesses pay taxes under the individual income tax system. A small businessman receiving tax relief will plow that back into the firm, either to increase productivity, which results in higher wages, or to hire more workers. A farmer will be able to use his tax savings to trade in his old tractor and purchase the newest technology to improve his crop yield. America's economy will grow as these investments go forward.

This tax relief package is sound fiscal and economic policy. It fits easily within our budget framework, leaving a $1.4 trillion cushion over the next 10 years to service the debt, to address priorities—beginning with Medicare reform, and to handle unexpected needs. I like to refer to it as the Goldilocks tax relief plan—not too big, not too small, just right.

This budget strengthens the three platforms that make success and prosperity possible for all generations of Americans—improved education, fiscal responsibility, and tax fairness. I look forward to working with the members of this committee to implement these common sense budget priorities, so that America continues to lead the world toward greater freedom and opportunity.

Thank you.

Mr. GUTKNECHT [presiding]. Well, many of the taxpayers draw the reasonable conclusion that you have additional money on hand, or, if you have additional money on hand, you should first pay down debt. Could you talk a little bit about debt repayment? And all of a sudden we have a new item in our vernacular called "recoverable debt." Could you explain that a little better for some of us?

Secretary O'NEILL. Yes, I would be very happy to. And you know, I know that we are going to have people in and out, and so I hope you will forgive me if what I do now I will do repeatedly to make sure that everyone understands a very important point about the answer to these questions.

In the President's budget document, we have suggested to you that over the next 10 years we will repurchase $2 trillion worth of debt held by the public. And there are a set of assumptions included behind that $2 trillion recovery. And one of those assumptions is that there is a certain level of so-called unrecoverable debt. And what that number is, what that concept is, whatever the number may turn out to be, it represents debt that is held by the public that people do not want you to take back from them; and if you insist on retiring it early, they will charge you a very large premium to let you have it back. In addition to that, there is a savings bond program which we have assumed that, because it has served us so well as a learning device for children and many people use savings bond programs as a way to give birthday gifts and Christmas gifts to their children and grandchildren, that the savings bond program will stay in place.

And the combination of those things one would not want to buy back because of the premium necessary to pay, and the savings program and debt held by some State and local governments. In the foreign governments, there is a so-called irreducible minimum of debt out there on the books.

Now, the distinction I want to make is this: that what we do in fact at the Treasury on a day-to-day basis in managing the outstanding maturities across a 30-year time period is a very technically precise piece of business. And by giving you this document and this assumption that we are going to buy, the determination that we are going to buy back $2 trillion worth of debt, I am not telling you and I don't want you to think that we have therefore made a set of decisions about exactly how we are going to manage the cash and debt balances of the United States Government.

The reason—you may not understand why I am doing this for you, but I learned yesterday, frankly to my surprise, that if I don't make that distinction, the financial markets think I am telling them something important and bond markets go into gyrations out there in the world where they spend all their time looking at CNBC.

So I want you to understand in everything I am saying to you now and have said to you in the last 5 minutes, I have no intent of changing the policy of the United States Treasury about how we manage cash balances and lengths of maturities and the debt structure of the United States.

Now, having said that and maybe coming to the follow-up question, over this period of time we will buy back all of the debt that it is possible and reasonable to do, funded by the $2.6 trillion worth of income that is going to come from Social Security contributions over this 10-year period.

Mr. GUTKNECHT. But to get to the point that we were told early on by Mr. Greenspan, who is going to be here tomorrow, that there is a benefit for us buying down publicly held debt and that we should see relative—and then that is a term economists like to use a lot, relatively lower interest rates—do you share that view? And ultimately what is the benefit to the average family living in my district or anybody's district here?

Secretary O'NEILL. I think it is true that as the Federal Government reduces debt held by the public, it means there is more money out there in the capital world that can be used by the private sector or even by State and local governments for investments to continue to improve productivity in the accumulation of income and wealth in our society. So by reducing the pressure on capital markets, by eliminating publicly held debt, arguably one would expect to see at any particular time, in a relative sense, a lower level of interest than what would otherwise exist.

Mr. GUTKNECHT. Could you just briefly talk about what some people have suggested that eventually we may start looking at buying corporate instruments of one kind or another? Can you share with us your view on that?

Secretary O'NEILL. I think that it is a terrible idea. I know I share that view with Chairman Greenspan. And I have been asking in the few weeks that I have been here now with the President this, and that I guarantee you without any reservation that if any legislation ever passed that said we were going to use public money to purchase private enterprise, the President would veto it a hundred times.

Mr. GUTKNECHT. You have a reputation as being a pretty conservative individual; and I don't mean that politically, but career conservative in your views. You have every confidence that there is room within the budget framework that the President has submitted to meet the legitimate needs of the Federal Government, to actually pay down or recover all of the recoverable debt in the next 10 years and make more than enough room for a $1.6 trillion worth of tax relief, do you not?

Secretary O'NEILL. I have absolutely no doubt.

Mr. GUTKNECHT. Well, listen I will yield to Mr. Spratt. Thank you.

Mr. SPRATT. Thank you very much. Mr. Secretary, let me show you a chart this morning that we used with Mitchell Daniels and show you what our concern is, bona fide concern and a point of disagreement with the administration about the budget. All of the numbers on this chart are taken from the budget booklet that has been sent to us by OMB, and Mr. Cohen just gave you a copy of the chart itself. We start with the total unified surplus which is 5 trillion 644 billion dollars. That is 34 billion more than CBO estimated a few weeks ago.

We deduct from that both the Social Security Trust Fund, which I think you would agree with, and the Medicare HI Trust Fund, and we do that for a particular reason. Both houses, both parties, over the last 2 years have basically come to the understanding that we will set these two accounts aside and allow the surpluses building up in these accounts to be used solely for the purchase of outstanding debt, not to buy new Treasury specials and fund new spending, but to buy up old debt. And that is the engine that drives the whole debt buyback plan. I understand that down the road we have got a problem when we run out of debt that can be bought and redeemed, but nevertheless, our idea was to set both of these aside. And we felt that that was the single best way to build down the debt.

And Greenspan last year heartily endorsed it, saying in the long run if we do that we probably should get some kind of reduction in the long bond rate. That would be one of the rewards we would reap if we religiously pursued this. That gives you an available surplus, if you back up those two trust funds, of 2 trillion 52 billion dollars available for tax cuts, available for spending increases. Your tax cut comes to a total of 1 trillion 620 million dollars, your estimate. We are adding to that the cost of extenders and the cost of a minimal fix to the alternative minimum tax.

Now, this could be a proxy for any tax exchanges that might be made in the next 10 years. I dare say this doesn't begin to exhaust the likely realm of tax proposals that would be passed. For example, Portman-Cardin is not included in your bill. Most of the people in this room, most of the people in the House, voted for it when it came up last year. If it were offered again, that would pass again. That would be $68 billion in lost revenues over 10 years.

In any event, we think the fix on the AMT is not only politically very, very likely, but we have estimated it at a very low cost. We have also given you credit for the fact that you are extending permanently the R&D tax credit. That is about 40 percent of the expiring tax provisions, but we think there is at least another 50 or $60 billion of likely extenders amongst the expiring tax provision. So that is $300 billion.

Finally the Bush budget itself acknowledges that if you use 1 trillion 620 billion dollars for tax reduction instead of debt reduction, that there is an associated debt service cost of $400 billion. When we subtract those three things, we come down to a residual of $207 billion to be spread over 10 years. Now, we also ask—do you agree with those numbers?

Secretary O'NEILL. No, I don't, but go ahead.

Mr. SPRATT. Well, let's start with where you disagree. You don't disagree with the numbers as such, I take it.

Secretary O'NEILL. I don't disagree with the numbers on the right-hand side. But I think this is a confusion of concepts. Because, maybe I can explain this by—let's focus on the Medicare HI Trust Fund surplus. What that means is an amount of money, given the way the current Medicare program is structured into A and B with the changes that were made a few years ago to create the illusion of a surplus, we have got an estimate that we are going to have $526 billion, over this 10-year period of Medicare buildup, surplus; right? Now, what is it that we are going to do with this money?

Mr. SPRATT. We are going to leave it in that trust fund.

Secretary O'NEILL. No, we are not really. What we are going to do with it is—now I am moving from program identification to how we actually manage the country's cash. And it is to the point that was raised earlier about how much debt are we going to buy back in the next few years. We are going to buy back $2 trillion.

And we are going to buy back less than the 2.6 trillion of the Social Security fund surplus by itself for the reason that I was giving technically before. And the same is true of the Medicare HI Trust Fund. So we are going to have all this money flowing at us. And we are going to use it, to the degree we can, to buy back debt held by the public. But what we are going to do with the rest of it is, we are going to create an obligation going forward to Medicare Trust Fund beneficiaries and to Social Security Trust Fund beneficiaries.

So the way you have got your numbers constructed, you are really kind of in between an income sheet, the balance sheet, to use a private sector metaphor for how to talk about these numbers. So the reason we have got a difference of opinion with you and with your friends in the Senate as well—I saw this same kind of rough chart this morning in the Senate—is because of the mixture of concepts.

And what I would say to you is we can stipulate and we both agree the top line budget surplus number over 10 years is 5.6 trillion, no problem with that. The amount that is going to be spent, with no doubt, for Social Security, is going to be reserved for Social Security, is 2.6. And of that, as much of it as possible is going to be used to pay down the debt. 1.6 trillion, we are proposing give it back to the people or not ever collect it from the people. And in our mathematics, that leaves 1.4 trillion.

And out of that $1.4 trillion, I would stipulate what you have got there for additional interest payments on the debt of $400 billion, leaving us with a contingency reserve of $1 trillion. I think these numbers, our numbers, do not confuse cash management and trust fund concepts. And I think they are the appropriate way to look at what it is we propose to you.

Mr. SPRATT. If you want to convert these books to the way that Alcoa kept its books, they would look radically different. We would have accrual accounting.

Secretary O'NEILL. We would have a $10 trillion unfunded obligation, which we are going to solve—as soon as we get done with this, we are going to come back and work with you to get Social Security finally fixed.

Mr. SPRATT. Well, my problem is, then, if that is true, then obviously the amount that is accumulating in the Social Security Trust Fund is not adequate either.

Secretary O'NEILL. No, we know that.

Mr. SPRATT. You are a trustee of the Social Security Trust Fund. What we are doing here is not just some convention we have arrived at in the Congress. We have not just colloquially given this names. This is black letter law. We call it a trust fund. We tell people if you pay your payroll taxes it will go into a, quote, trust fund. We have got trustees, the highest officers of the Cabinet, who sit in trust. Do you think you are free as a trustee to spend that money on other purposes?

Secretary O'NEILL. No, we are not going to spend it on other purposes. We are always going to have that obligation that is associated with that. But in effect what we are doing is we are defeasing the Federal debt so that when these obligations come due we will either have fixed the program, which is my preference, or we will have the debt capacity. In the context now of how a private sector company works, it is not unusual to have a balance sheet with 30 or 40 percent debt.

Over this period of time, what the President has recommended is we drive the debt down to zero effectively, so that when the bills come due, and they will come due, either we will have fixed the program or we will have the debt capacity to borrow the money to effectively discharge the obligations that we promised to the American people.

Mr. SPRATT. So when the trustees for the Social Security Administration come to the window at the Treasury, you are better able to pay them than ever before.

Secretary O'NEILL. Absolutely.

Mr. SPRATT. That is something that we want to do and sought to do by this very device. That is, dedicating the trust fund solely to that purpose. I know you hit the wall somewhere. We can argue about how much debt you can buy back and how much cash, somewhat judgmental. But we would like to set a target of 2008—that is the year the baby boomers first begin to retire—and hope that we would use this money for Social Security reform and long-term solvency, and the same with Medicare. In that event you really wouldn't—you wouldn't have excess funds before 2008. You probably would have enough debt that you could buy up that would occupy these two programs.

Secretary O'NEILL. We will see. I don't know. Now you are back into cash management. I don't know. But I think the last part of what you said, I agree with you. That is what we need to try to do.

Mr. SPRATT. What happens to the——

Secretary O'NEILL. Excuse me. I am sorry. I didn't quite finish my answer. The alternative to doing what I am saying to you I think we should do is for the Federal Government to start buying Alcoa and IBM and becoming, in effect, an owner of the private sector, which we really think is a terrible idea.

Mr. SPRATT. I understand your concerns about that. You know Mr. Greenspan's pension plan at the Federal Reserve is two thirds invested in equity. So we are already into that to some extent, and the Thrift Savings Plan owns about $100 billion in equities, too.

But in any event we looked at that and said, where does the trillion dollars come from, the contingency fund? The only providence we could find for the so-called contingency fund of the $527 billion—the $591 billion in Social Security that can't be used for debt reduction or the $526 billion in the Medicare Trust Fund which is not going to be treated as a trust fund, or, of course, the $207 billion; where do you get $1 trillion?

Secretary O'NEILL. If you would like, I could go through it again. I will stipulate to 5.6. I will stipulate that 2.6 for Social Security. And then I will say again, $1.6 trillion for tax relief. And if I give you the $400 billion, that is easy to give these big numbers away, $400 billion for debt relief, I have got a trillion left.

Mr. SPRATT. You are taking out the $300 million for the AMT fix and extenders?

Secretary O'NEILL. No. No. No. I am leaving that for you, if that is something you want. I have not provided for things that you may want to do. And I don't deny that. You certainly have a right to do other things than what we have recommended. But that doesn't affect my number. I mean, you may end up affecting the numbers we are proposing as policy, but it doesn't affect the way we put the numbers together. So that if you would like to spend $300 billion on extenders and fixing a problem that has been in the Tax Code for I don't know how many years, 20 years, in addition to what we proposed, that is certainly something you can do. It is not what we propose to do.

Mr. SPRATT. Well, so you are not going to spot us the $300 billion, that would be our optional money to use it for that purpose.

Secretary O'NEILL. Well, if you are saying you want to spend 300 of my trillion that way, that is your right.

Mr. SPRATT. I am trying to understand how you start from 207 and get to a trillion.

Secretary O'NEILL. I never get to 207. I never get to 207.

Mr. SPRATT. I am stipulating the 207, that is the residual. What else—is the Medicare Trust Fund added into the contingency?

Secretary O'NEILL. No. No.

Mr. SPRATT. How do you get to $1 trillion? Would you tell us the components again?

Secretary O'NEILL. I will indeed. 5.6 is a number we both agree with. Everyone agrees 5.6; the CBO, the blue chip economists, everybody downtown. 2.6 for Social Security. 1.6 for tax relief or tax refund, as the President characterized it the other night, and that leaves a residual of 1.4. And I am willing to say to you, fine, we have included in our 1.4, in fact we have labeled it for debt and other contingencies, so we have got $1 trillion left out of $5.6 trillion.

Mr. SPRATT. But it includes Medicare.

Secretary O'NEILL. Again, we are confusing concepts and what we are going to do. Every dollar that comes in for Medicare and for Social Security will ultimately be spent only for those purposes. Only for those purposes. But by the best estimates that exist, this says that the Medicare Trust Fund, I must say to you only because of the way it is structured, not because of the way real life is, because real life Medicare is A and B—this is, you know, excuse me for saying so, but this is another fiction. You know, the SEC would have assaulted me if I had done this in my Alcoa books.

Mr. SPRATT. As these dollars come into both those trust accounts, they are surplus to the immediate needs of the program so they have to be invested in something.

Secretary O'NEILL. They either have to be invested or they have to be used, but with a use that doesn't endanger their availability as an obligation of the United States Government when the flow of funds is required.

Mr. SPRATT. Right. So if they were used for something else, we would still stand liable for the benefit.

Secretary O'NEILL. We would still have the liability, there is no doubt about that. And the limit on how far we can go in using surplus funds is, in a theoretical sense, zero. I think we have agreed that it is some number higher than zero. But the obligations don't go away.

Mr. SPRATT. I understand that. That is why I am concerned about securing the obligations, why we advance-funded particularly the Social Security fund beginning with the Greenspan Commission's recommendations in 1983.

Let me turn to a different subject before I yield to other witnesses, and ask you about the estimates of the revenue consequences of your proposed tax reduction bill. In the budget that was presented just yesterday, the estimated cost for creating the 10 percent bracket, the new 10 percent bracket, is $275 billion for the years—first 5 years, 2002 through 2006.

Last year when the Joint Committee on Taxation scored the bill, the proposal, the same recut was included and they assigned a cost, a revenue cost to it of $358 billion. What is the difference between this estimate and the JCT estimate?

Secretary O'NEILL. I have no idea. I have not seen the reconciliation of those numbers. Although when these things were done a year ago, we were in very different circumstances in terms of where our economy was and the rest of it. I just don't know.

Mr. SPRATT. That is this year's estimate.

Secretary O'NEILL. You know, I would happy to get you a reconciliation. I don't have those numbers in front of me, but we should be able to cross off the numbers so there is no difference of opinion.

[The information referred to follows:]

RESPONSE TO TAX RATE QUESTION SUBMITTED BY MR. SPRATT CONCERNING THE DEPARTMENT OF TREASURY ESTIMATE AND THE JOINT COMMITTEE ON TAXATION ESTIMATE

I am not familiar with the estimates cited. However, for the FY 2002–FY 2006 period in question, the Department of the Treasury and the JCT estimate the revenue loss associated with the proposed creation of the new 10 percent marginal tax rate bracket at $108.7 billion and $108.4 billion, respectively.

Mr. SPRATT. The estimate for the cost of repealing the estate tax is also smaller than the JCT. If you could also provide us answers for the records.

[The information referred to follows:]

RESPONSE TO ESTATE TAX QUESTION SUBMITTED BY MR. SPRATT CONCERNING THE DEPARTMENT OF TREASURY ESTIMATE AND THE JOINT COMMITTEE ON TAXATION ESTIMATE

The Department of the Treasury and the JCT estimate the revenue loss associated with the phase-out and repeal of the estate and gift tax at $271.5 billion and $305.9 billion, respectively. Given the technical complexity of preparing this estimate, and the many issues and interactions that must be considered, the estimates are surprisingly close. Factors that may contribute to the estimating difference include: 1) differences in the baseline forecasts of estate and gift tax revenue, 2) differences in estimates of taxpayer behavior with respect to charitable giving and the realizing of capital gains and 3) differences in estimates of possible increased tax avoidance activity.

Secretary O'NEILL. I would be glad to do that, sir.

Mr. GUTKNECHT. The gentleman from Tennessee, Mr. Hilleary.

Mr. HILLEARY. Thank you, Mr. Chairman. Thank you, Mr. Secretary, for coming and testifying today. I just had a quick question. I am from Tennessee and that is one of the few, handful of States, maybe seven or eight in the country, that don't have a State income tax. And State income taxes, local taxes, income taxes, are deductible off of Federal taxes. Sales taxes are not, which is where we get most of our revenue in Tennessee. It seems like a bit of an inequitable situation for those folks who live in those eight States. I was just curious if there was anything on the horizon from the Bush administration's standpoint to correct that inequity.

Secretary O'NEILL. Well, I will probably get in trouble for telling you my answer to your question, but I will tell you anyway. I think it is essential that we move ahead with what the President has recommended with his first tax bill, and I understand even today there is action going on here in the House. As soon as we are done with that, the President has determined that I am going to do everything I can to help him to come back with Social Security reform that will finally fix a problem that we have known about for 25 years and have not solved. And then I hope we will be back here with a full-fledged recommendation as to how we completely reform the U.S. Tax Code so that we get rid of all the awful things that we have cobbled together over the last 225 years, because it is a monstrosity.

When I left, the Tax Code was maybe 4,000 pages. Today it is 9,500 pages. It is just unbelievable what we have done to ourselves. You know, I have to say to you, some of the things, including some of the things that we have got recommendations here, are more Tax Code things. I would hope we could see our way in the not-too-distant future to work with you all to do what every citizen I have ever met in the United States that is interested in talking about the Tax Code, they all think it is an abomination, you could all get reelected, 100 percent votes, if we could really fix the U.S. Tax Code.

So I hope we are going back here not just to fix this issue of what is deductible and what is not deductible, to really clean it up.

Mr. HILLEARY. So what you are saying is this year you are going to concentrate on the big items the President talked about in the campaign, that he is talking about now. There is probably not enough room there with what you all are doing right now to consider something like that change. But possibly in the future it would be among other proposals to help improve the Tax Code.

Secretary O'NEILL. I sure hope so. You know, if you all could do—if the Senate could do this tax cut, as apparently you all are going to do this, we could get it all done real quickly. We could do Social Security by the 4th of July and have the rest of the year to work on other things.

Mr. HILLEARY. Thank you Mr. Secretary.

Mr. GUTKNECHT. I think if you can guarantee 100 percent reelection, you will get strong support from us.

Gentleman from Texas, Mr. Bentsen.

Mr. BENTSEN. Thank you, Mr. Chairman. Mr. Secretary, I guess I have a few questions for you. I want to go back to your comparison to income statements and balance sheets. Obviously you have a distinguished career in business. But on your last comment it does strike me as a little surprising given that I wouldn't expect Alcoa or any other Fortune 500 company to necessarily declare a dividend prior to finalizing their income statement or their balance sheet or their 10K or 10Q and pay out that dividend until they knew what their real future expenditures were going to be.

But the House, quite frankly, is on the path to do so, and you seem to endorse that concept. The previous speaker said it was beyond your control, you being the administration. And you are arguing that the House ought to do it and the Senate ought to do it. That doesn't seem to be prudent planning in my opinion.

I also want to talk about this concept of the trust funds. I think first of all what you all have put forth in your budget blueprint with respect to the Medicare Trust Fund is quite crafty, but it does not track current law, and it would require a substantial change in the law. Virtually every Member of the House is on record for voting to set aside that half trillion dollar Part A Hospital Insurance Trust Fund. And those funds are obligated.

To take obligated funds out and spend them on other programs, or an expansion or change of the Medicare program, without conforming changes in benefit cuts or payroll tax increases or more debt, would only exacerbate that unfunded liability. I don't see how you can get around that, because those funds are already committed under the law to future retirees. Now, the only way to correct that is get around it.

The same is true in your budget blueprint. You talk about using some of the projected Social Security Trust—I assume that which is not used to pay down debt—for reform of the system. Now, as I said before, everybody who has come before this committee to testify on Social Security reform, from the right to the left, has said whether you go to private accounts or not, including Martin Feldstein who has advised the President on his proposal to go to individual accounts, has said it takes an outside capital infusion.

You cannot count that $600 billion or any of the projected surplus against outside capital. Those are already encumbered funds. But it would appear that is what the administration is proposing; or if not, it needs to be clarified, because you cannot double-count those funds. I would like you to comment on that.

I would also like you to comment on your assumptions, because what I am concerned about, in your statement you talk about the era of deficits and how we finally got out of it. One of the ways that we got into the era of deficits was the fact that the Reagan administration sent a budget up that had all its goodies up front in terms of the tax cuts and had its new spending commitments that it wanted to make. This new administration has its spending commitments as well, in defense and education and some to come later. And it has assumptions that we will have a budget that stays flat, with only an adjustment for inflation on the discretionary side. In fact, a real decrease on the nondefense discretionary side, and has reductions in programs like the Export-Import bank, while I don't know whether Alcoa ever used Ex-Im Bank for it, but others certainly—Halliburton did down in Texas, and GE and others—and maybe we will cut that, although I am skeptical of that—has reductions that I am not sure Congress, Republicans or Democrats will go along with. That is what happened back in part in 1981.

And for the record, I would remind my colleagues, in 1981—and I was in college at the time—but in 1981 the Republicans controlled the Senate and they controlled the White House. So it wasn't the Democrats in Congress who made this happen. The Republicans had two-thirds of the lever.

But I would like you to address those two points. Where are you not double-counting?

And the third thing I would say is, you have in your budget $1.2 trillion in unexpended balances. Where are those monies going or what are your plans for those monies? And, finally, why not, if you have excess dollars and you can't retire $1 trillion worth of debt, why not decrease the debt? Rather than sit on cash, why not buy securities and decrease the debt?

Secretary O'NEILL. OK. There are a whole lot of questions in there. Let me begin with the issue of whether or not it is prudent to make an investment in our economy with the tax reduction the President has proposed. I would say to you, if it was a close call, that we should wait and deliberate and have even less conversations. But with a prospect of a 10-year unified surplus estimate of $5.6 trillion, it doesn't seem to me imprudent to say that we are—take $1.6 trillion of it and, with some comfort and assurance, say that is going to be OK.

I have been asked as I have been testifying, well, I bet you never made a 10-year commitment when you were in the private sector. You know, the truth of the matter is in the business I was in before I came back here, the decisions I made, often multibillion decisions, were for 50 years. Believe me, when you decide you are going to build an aluminum smelter or a refinery in the U.S. or Australia or Brazil, you don't get to take it back after 12 months because it is somehow inconvenient or you decide you made a bum decision. You have got to make a decision that is based on an assessment of what your competitive potential is and long-term capital rates and Federal spending and all the rest of that.

So it does not seem to me a unique idea that we need to make decisions that have long-term consequences. I would say in some ways this is not a long-term decision, because if you decide you hate the tax reductions in a couple of years, there has been some demonstration in the last 20 years that it is possible for Congress to raise taxes. I hope that is not the case. But in any event, I don't think you should be troubled by the idea of making an important decision that has lasting consequences.

I don't think it is probably worth while to spend a lot of time on history. As I think was mentioned, I was here for 15 years before I went into the private sector. And when I left, I was a deputy director of OMB, and I cared a lot about what the status of our fiscal affairs were, and I didn't stop paying attention after I left; because in 1969, I helped to write the last budget that was in balance until those of the last few years, and then we went down the drain. We went down the drain unbelievably. And I was watching what was going on in 1981.

As a matter of fact, I think my memory is probably right, on page 27 of the March—I forget what date—March 1981 budget document that was sent to the Hill, there were recommendations for tax cuts, and there were also recommendations for $42 billion worth of unidentified spending cuts. There were no big spending increasing in the Reagan budget.

The reason we went in the dumper is because we passed the tax cuts and we never ever did anything about spending cuts. In fact, during the period of the eighties, we had revenue go up double and spending tripled. So just to make sure, I think you will find, if you examine the history, that my version is correct.

Mr. BENTSEN. There were no defense increases in the 1981 Reagan budget?

Secretary O'NEILL. I don't think so. The numbers that were suggested that were going to be attained were not budget-busting numbers, because there was an assumption that spending cuts would be identified, and they were never identified. And I don't think we are in that condition now. As a matter of fact, the budget that we have in front of you would provide for over the next 10-year period, over a 10-year annualization from 2001, $5.2 trillion worth of cumulative new spending. Again, you know much to my amazement, it has been a long time since I was here, we don't down the stuff that is associated with an assumption of a 3 or 4 percent increase year to year. As spending increases, we say that is inflation adjusted. I have got to tell you, that isn't the way we do it in the private sector or we would all be dead in the water.

And so, you know, I don't think the $5.2 trillion worth of additional spending ought to just be blue smoke and then we start spending on top what we are going to give ourselves a free ride for, as though somehow inflation is an excuse to have a lot more absolute spending.

Mr. BENTSEN. The point is that you run a flat-line discretionary budget with inflation adjustments. But at the same time, as best I can tell from your numbers you are proposing, at least initially, dramatic increases in education and defense, probably very popular. Then you have other ideas behind that, that you haven't laid out yet in your budget over the 10-year period.

The only way you can do that within the cap that you set is to propose decreases in other parts of the budget to stay within that band. But the fact is, you lay out certain decreases that I think you know and the administration knows that Congress probably isn't going to accept. So how do you make up for that?

Mr. GUTKNECHT. Mr. Bentsen, let me just interrupt. The gentleman's time has expired. I don't know if it is fair to sort of presume what the administration may do in next year's budget or the subsequent budgets. I think we have to deal with the numbers in the budget that is before us now.

We will have time if possible for another round. I would yield to the gentleman from New Hampshire, Mr. Sununu.

Mr. SUNUNU. Thank you very much. Thank you for being here, Mr. Secretary. When you were working for Alcoa, they paid dividends to their shareholders.

Secretary O'NEILL. Yes, indeed.

Mr. SUNUNU. Did they ever pay dividends when they had long-term debt on the books?

Secretary O'NEILL. Of course.

Mr. SUNUNU. No one thought it was fiscally irresponsible?

Secretary O'NEILL. No, they loved it. They drove the stock up 800 percent in the time I was there.

Mr. SUNUNU. Does it jeopardize the overall health of the company?

Secretary O'NEILL. No.

Mr. SUNUNU. I just make that point because I think it stands to reason that, you know, within the bounds of good fiscal management, we can make decisions not on either end of the extreme, but that retains the appropriate level of reserves, the appropriate level of debt even in the long term, meets all of our commitments, even reduces the level of that debt steadily over time, but still returns something back to shareholders in that particular case, or taxpayers.

I would also offer for your edification comments made by Director Daniels today which I think bear repeating. And that is, too often we get into a situation where the taxpayers come last, where it is every program, every spending increase that is desired, every other opportunity to use the revenues that are coming into the Federal Treasury, and then maybe at the end of that process, last in line, we might think about taxpayers. And I think this is an opportunity with this budget that has been put together to maybe think about the taxpayers, not even necessarily first, but certainly not put them at the end of the line.

It was also mentioned earlier that it seemed abnormal, or maybe to be an analogy for some of the discussion on Social Security reform, that the Federal Reserve had a pension that bought equities. And I would just remind everyone that the Federal Reserve is a private organization and they are managing a pension which is a defined contribution system, not a pay-as-you-go system certainly, and not even a defined benefit system. And that is very much in essence in keeping with some of the proposals that have been put out there, some of the ideas put forth by President Bush and others, to allow Americans to take a portion of what they pay in Social Security taxes every week out of their paycheck.

It was pointed out by Ms. Clayton earlier on, I think, that there is an enormous burden for lower-income workers. Why not allow those people to control a portion of that in something more akin to a defined contribution system, where they control it, they earn a higher return, it represents real wealth that they are building and can pass it on to their family and can draw on that wealth when they retire.

Third, let me make a point in response to some of the ideas that were put out, and then I would like to hear your comments about this in particular. There has been a lot of accounting and different numbers, but at the end of the day, assuming that Mr. Spratt doesn't advocate too forcefully for a reconciliation figure of $1.9 trillion and is willing to agree to the President's level of $1.6 trillion, adding to that the additional funds that have been set aside, the reserve that the President has created is about $1 trillion. I think we can at least agree on that number. And it has been put forward, advanced, that that is somehow fiscally irresponsible to be creating that reserve, one. Two, that there is something very problematic that we are not—the administration isn't trying to spend that reserve, that they are claiming that it is set aside, and most recently mentioned that you are not trying to pay down debt or buy back Treasury securities that haven't matured yet. Now the reason for not doing that is because the premiums are estimated to be about $125 billion, an additional cost to the taxpayer if we try to do that.

I think it is fiscally responsible to create a reserve. No one tried to do it in the previous administration, no one tried to do it in the Bush administration, no one tried to do it in the Reagan administration. It is a wonderful opportunity to build in a natural buffer against unforeseen events.

Could you talk a little bit about the thinking that went into creating that buffer and also talk a little bit about the size of this tax relief package in comparison to those that were advanced, quite successfully, under the Kennedy administration and under the Reagan administration in 1960 and 1981?

Secretary O'NEILL. To the point of your last question, what is recommended by President Bush is much smaller than what either Presidents Kennedy or Reagan recommended and ultimately got enacted in their times. And, you know, I think there is no doubt this is prudent. And one of the things that we tried to do, to make sure that everyone can see that it is prudent, is to establish this so-called debt service and contingency fund, so that it is not as though we are spending the last dollar that is going to come into the Federal Government right up to the wall so that we don't have an ability to deal with the down side of an economy that is possibly weaker than what everyone expects it to be.

In fact, one of the things, if you look back at the last few years, it is true—and my friend Alan Greenspan said he thinks that because we still don't fully understand the importance and the driving force associated with productivity growth that is taking place in our economy—that for the last 3 or 4 years we have been systematically underestimating the amount of revenue that is going to be produced by our tax system.

In fact in the first 4 months of this year, the Treasury has collected a surplus of $74 billion, which is $30 billion more than we collected last year when the economy was running at a 5 percent growth rate. And so we are still taking up enormous surpluses of funds. And, frankly, it does make sense to give that money back or not take it in while we are in this lull in the economy.

Mr. SUNUNU. There has been a lot of frustration expressed about some of these time horizons we have in the budget, that it is at 10 years. And my preference would be not for looking out 10 or 20 years, or at least talking in the budget in those terms because these numbers are so enormous, to focus instead, if you will, on the next 5 years, a little bit more predictable. In particular, talk about the debt retirement that is projected just for the next 5 years, with a quick decision of the budget presentation here that the total debt retirement over the next 5 years will be between $1.2 and $1.4 trillion.

Now, that seems to me to mean that we will have to retire every Treasury note that has a maturity between 1 and 5 years, and it would certainly put a lot of pressure on even the shortest term securities, the 3- and 6-month bills that you might need for cash management purposes. Is that in fact the case? Will all of those Treasuries come out of circulation, at least the medium-term maturities? And if not, what are some of the long-term issues that you are worrying about as we enter what are truly uncharted waters?

Secretary O'NEILL. If you will forgive me, I don't want to do cash management with you in this forum, because if I told you yes to your question, if we went back in the back room and turned on CNBC, we would see the markets would go crazy. And so it is frankly not appropriate for us to talk about what the maturity structure of Federal debt looks like either now or tomorrow or 5 years from now, because they will not forgive us out there, believe me. We will have more trouble than any of us want if we start doing cash management and debt maturity restructuring here.

But your general point is right. We are going to be buying and retiring lots of Federal debt over the next 5-year period. And, you know, we have said an estimate of $2 trillion. It could be we could buy back and retire more than that over the next 10 years. But what we are going to do is we are going to use the money that is coming in to retire debt as a first priority—as an important priority. And we are not going to sacrifice that debt retirement to higher spending or to the President's proposed tax reduction. These things are in balance with each other, starting with funding the highest priorities, taking care of debt reduction, and only then dealing with the prospect of tax reduction and leaving $1 trillion worth of contingency funds. So that people out there in greater America can look at what we are doing together and say, this is a sensible way to proceed.

Mr. SUNUNU. Thank you.

Mr. GUTKNECHT. The gentlelady from North Carolina, Mrs. Clayton.

Mrs. CLAYTON. I thank the Secretary for coming. Mr. O'Neill, on your last comment I heard from Mr. Gary Gensler who was formerly with the Treasury Department. You seem to suggest that you could pay more than $2 trillion in debt, is that what you were saying?

Secretary O'NEILL. You know, what he actually said on January the 19th, because he was——

Mrs. CLAYTON. This is February 27. I have a letter.

[The letter referred to follows:]

Chevy Chase, MD, February 27, 2001.

Hon. JOHN SPRATT,
House of Representatives, Washington, DC.

DEAR MR. SPRATT: I am writing in response to your request for a brief analysis of the Treasury Department debt held by the public and in particular how much of that debt is available to be paid off over the next 10 years.

Based upon my recent experience as a Treasury Undersecretary for Domestic Finance responsible for Treasury's debt management, and my prior experience as a partner of Goldman, Sachs, I believe that close to $3.0 trillion of the currently outstanding $3.4 trillion in publicly held debt could be paid off, leaving outstanding between $410 and $500 billion in debt at the end of 10 years. I believe that the Treasury can achieve this in the future by: (1) allowing the vast majority of this debt to mature as it comes due; (2) making various changes to debt management policies over time; and (3) smoothly repurchasing over time the majority of the Treasury's long term debt at market level prices.

This estimate of potential remaining debt is somewhat lower than that of others, including the Congressional Budget Office at $818 billion or that of the Federal Reserve Chairman in recent testimony of somewhat more than $750 billion. The following analysis may help to put this lower estimate in perspective and show how there are a variety of policy steps that may be taken to achieve potential remaining debt over 10 years of between $410 and $500 billion.

There are two main components of publicly held debt. By far the largest component is that which is traded freely in the market place, the marketplace debt of $3.0 trillion as of January. Of this amount, approximately $2.5 trillion matures (or is callable) by 2010. Therefore, nearly $2.5 trillion in marketable debt is available to be repaid by allowing it to mature. Treasury would over time make decisions, as it has in the past, as to the discontinuance of its various debt offerings.

There is currently outstanding just over $500 billion in debt that is scheduled to mature after 2010. Excluding holdings of the Federal Reserve, the privately held portion of this long maturity debt is just $460 billion. Treasury has available to it a number of policy alternatives to assure that this longer maturity debt declines significantly and smoothly over the next 10 years. First, Treasury can determine to discontinue issuance of any new longer-term debt. A group outside financial experts advising the Treasury, The Borrowing Advisory Committee, voted as a majority in January to advise the Treasury to do just that later this year.

There are also a number of ways to reduce the amount of longer maturity debt outstanding. Over the last year, Treasury successfully and efficiently repurchased approximately $35 billion in long maturity debt. Debt buybacks have been used for many years as a successful financial tool both by the private sector and the public sector. Buybacks have been used throughout our nation's history during periods of sustained budget surpluses, most recently 70 years ago. Treasury Secretary Alexander Hamilton, in fact, was the first to recommend them in his report to Congress in 1795. The financial markets anticipate the Treasury will repurchase between $35 and $40 billion in longer-term debt this year and continue the program into the future, even though plans for future buybacks have not yet been incorporated into Federal Budget estimates. I believe that Treasury can continue this program well into the future, smoothly repurchasing substantial amounts of long-term debt at market level prices.

Lastly, the Borrowing Advisory Committee has recommended that Treasury consider conducting debt exchanges. Treasury last used debt exchanges in the 1960's and could use them again to exchange short maturity debt for long maturity debt.

Using a combination of these methods over the next 10 years, I believe that Treasury could smoothly retire one half and possibly up to two thirds of its current long-term marketable debt, adding between $260 and $340 billion to debt available to be repaid.

The second main component of publicly held debt is non-marketable debt of $426 billion. Depending upon decisions, which the Treasury has the authority to make, approximately half of this debt is available to be repaid over the next 10 years.

State and local governments hold approximately $148 billion in non-marketable debt. Approximately 90 percent of this debt matures within the next 5 years. The Treasury has the authority to discontinue issuance of these securities just as it has in the past discontinued issuance of other securities. Municipalities would then choose to invest in alternative debt instruments in the market while still abiding by anti-arbitrage rules related to the tax code.

The Thrift Savings Plan holds $33 billion in Treasury debt to back Federal Government employees' selections of investing in the bond market. While the TSP invests directly in private sector equity securities, the arrangement with Treasury regarding bond investments was set up during the mid 1980's in a period of significant and growing fiscal deficits. In this new environment, the TSP could initiate a new bond fund, which would actually earn a higher return for Government employees by investing in private sector debt securities.

The remaining non-marketable debt includes $185 billion in savings bonds and $55 billion in long maturity zero-coupon bonds issued to foreign governments to back the Brady program and to the REF Corp. to back the resolution of the thrift crisis. These Savings Bond programs, while not growing in many years, still have broad public appeal and are thought by many to be an important vehicle to promote savings among small savers.

Lastly, Treasury will continue to have seasonal cash management needs and will periodically wish to address those needs by issuing and redeeming short-term cash management bills.

In summary, there is currently $3.4 trillion in Publicly Held Treasury debt outstanding, of which close to $3.0 trillion is available to be redeemed over the next 10 years. Letting it mature under its terms could pay off the vast majority of this debt. No doubt, Treasury will have many policy decisions to make over this time, but it is within their authorities and ability to smoothly repurchase significant long-term debt at market prices and to redeem significant non-marketable debt. This would leave only between $410 and 500 billion in debt over the next 10 years.

Very truly yours,

GARY GENSLER.

Secretary O'NEILL. Well, let me give you a reference point for January 19 first, then maybe you would like to put the February statement on the record. On January 19 when the Clinton administration sent you all of their last budget document, what it showed was that Treasury was estimating that we would not be able to retire any more debt, then leaving us with a residual of $1.2 trillion, actually a little bit larger than the number we have now used. And it was only in the last few days after President Bush's documents hit the street that my friend Gary decided to convert and somehow figure out a way to—what he said when he was an official of an administration that was wrong by $700 billion.

Mrs. CLAYTON. My understanding is that that might have been an OMB estimate rather than a Treasury estimate.

Secretary O'NEILL. He signed up for it. Please believe me, when you get a document, when I am the Treasury Secretary, that reflects a Treasury number, I will own it. Maybe he is now disavowing ownership. I will not do that to you in or outside the government.

Mrs. CLAYTON. Mr. Secretary, let me raise the issue I raised with your colleague, Mr. Daniels. The issue is the whole fairness of the tax bill. He kind of said that his expertise was in the amount. Now, the President in his State of the Union did raise questions about the amount, whether it was too big or too little. He asserted that it was just right. He did not raise questions about fairness.

I wish to raise that question. But I will give him credit and I think he probably assumes that it is fair because he makes statements to the effect that this plan will move low-income people to middle income. He makes that claim.

I want to answer that question from my perspective, and give you the basis on which I made the answer and get your response to it. When I reviewed the President's plan, I see it being skewed to the upper income level. In fact, 1 percent will receive from 36 to 43 percent. When I look at 80 percent of the taxpayers, I see they receive something roughly around 29 percent by one analysis. However, the 1 percent pays less than they are receiving in tax cuts, and the 80 percent of people who get less of a cut in the package actually have a greater liability in that.

In fact, the Treasurer last year, reported that the top 1 percent paid 20 percent of all Federal taxes under the current law.

Now, the President has made the claim that those in effect working families, lower income and moderate income, will receive a larger percentage of a cut. That claim can be made if you only focus on—and I am glad Mr. Sununu recognized it—the limited liability burden that low- and moderate-income people have, and that is the income tax. Their greater Federal tax liability is the payroll tax. They pay far more money in payroll taxes than they will ever pay in income taxes.

So if you took a family of four making around $27,000 and had two children, their income tax liability would indeed under this plan be completely eliminated, 100 percent. But their cost, their liability in actual dollars, would be something like $25 or $30, if that much.

So you could do that, but if you actually looked at their payroll taxes and deducted the income tax income credit, they still will owe over $2,000. So when I make the claim that I don't see this tax being a fair tax to the working poor and low-income people, that is the basis on which I make it.

Further, if I also make an analysis of the current census population, one-third of the families with children under 18 will not receive any help. Now, the standard rationale is, well, they are not paying taxes, but they receive no assistance on that. If I look at that one-third carefully, I again find minorities represent more than one-half of that one-third, receiving no help from this tax plan, 55 percent for African Americans, 55 percent for Hispanics. I cannot understand how I can look at that and be objective and think that this tax plan is being fair to all taxpayers, working families, who are lower income as well as moderate.

Would you respond to that?

Secretary O'NEILL. Yes, indeed. Let me first say everywhere I go, I run into my old friend Bob Greenstein's numbers. Bob is obviously a very bright guy, and he is really good at creating advocacy statistics.

I am sure you all recognize what he has done with the 1 percent. You know, that is a constant thing. Then he does, well, they pay 20. What do they pay 20 percent of? They pay 20 percent of all the taxes. What is the 43 percent? That is not related to the 20 percent, that is related to a different issue of what is going to happen with this income tax restructuring that is being proposed.

So you did not do it to me here, but this morning I got treated to a bar chart that showed 20 percent of one number and 43 percent of another number, and you get the visual impact and say, oh, my God, that can't possibly be fair.

Well, let me tell you what the facts are. With what the President has proposed, the higher-income taxpayers are going to pay a larger relative share of total Federal income taxes than they do now. Why is that so? Because we are taking a lot of people off the tax rolls completely, and for lower-income taxpayers, say, for a four-person family with $35,000 worth of income, their tax bill under the President's proposal is going to be zero. They are going to get a 100 percent reduction in their taxes. You can't go lower than zero unless you want to go negative, which is in effect what we have done with the earned income tax credit.

But, again, I would say to you, you know, if you want to look at the world in this way of combining all of the taxes, then we should look at the same side of what we are doing with the money that comes in here. So if you want to look at what are the total individual impacts of taxes and spending, which we are not proposing to do, we are proposing to fix the income tax right now, but if you were to take this broader approach, first of all, you would put down earned income tax credit, and then you would put down food stamps, and then you would put down housing subsidies, and then you would put down Medicaid, and then you would put down——

Mrs. CLAYTON. Mr. Secretary, with all respect, I would put down corporate deductions.

Secretary O'NEILL. I am not disputing that. What I am saying is what you are trying to do——

Mrs. CLAYTON. Sir, what you are doing to me is you are suggesting that I am playing the income tax card. I am simply trying to show you that—and we can disagree, but the tax system gives as many breaks to those with income as it ever considered, giving the low-income. The earned income tax credit does not eliminate fully all the tax burdens on those who are poor, because they still have to pay an excise tax, they pay other taxes, and they pay payroll taxes. When you eliminate that, they still come out with tax liability.

You are correct, perhaps that $35,000 would be eliminated, but I don't know what that liability would be. You have a limited liability.

Chairman NUSSLE. The gentlewoman's time has expired.

Mrs. CLAYTON. Thank you, I will honor that. Can I have another round?

Chairman NUSSLE. I will be glad to let him answer your question. Why don't we let the Secretary do that.

Secretary O'NEILL. Let my give you a few more numbers. Let me give the numbers for a four-person family with $45,000. They are going to get a 50 percent reduction in their taxes, which means $2,000. They are going to get reduced from $4,000 to $2,000. For a four-person family with around $70,000, $75,000, they are going to have a 25 percent reduction in their taxes.

As I said to you, the President's proposals make the Federal income tax system more progressive than it is today. I want to be sure my intent is clear. I am not gainsaying for a moment. All the things that we do to help low-income people, disadvantaged people, people with disabilities, people who can't make it on their own, I am just calling attention to the idea that if we are going to sweep all the taxes together, then we need to sweep all the benefits together, because, as I am sure you know, if you look at Social Security, for example, if you look only at the tax side, you would say this is very regressive. If you look at taxes and benefits together, it is really quite a progressive system. And I am just making a plea, you know, maybe it is the plea of an outlander who has been away from here too long, that as we talk about these things, how important it is to think about them in a way that doesn't divide us, but hopefully unites us around ideas that are truly related to each other.

Chairman NUSSLE. Mr. Secretary, I apologize for having to be away for a little bit. I have got some good news to deliver to you, however. The reason that I was absent is I was over at the Ways and Means Committee, and the President in his speech said he wanted tax relief in an urgent manner, he wanted us to pass it quickly, and just moments ago the Ways and Means Committee passed the first tranche of the tax bill. So I wanted to deliver that news to you. That was the reason for my absence. I apologize for that. I thought it would be some news you would be interested in.

Secretary O'NEILL. Thank you, Mr. Chairman. If it wasn't unseemly for a Treasury Secretary to do it, I would jump up on top of the table and shout hooray.

Chairman NUSSLE. The cameras are all now very disappointed they weren't here for that.

Mr. Thornberry.

Mr. THORNBERRY. Thank you, Mr. Chairman.

Mr. Secretary, I want to go back to one of the issues that you stipulated really with Mr. Spratt and is in the President's budget submission, and that is the additional interest payments because of not putting the money that is used for the taxes onto the debt. It seems to me that is dependent upon a couple of assumptions. One of them is, of course, as we have been talking, is you could use that money to pay down debt, and you have been talking about the fact that you have to start paying a premium, and it doesn't make sense to do so after a certain point. So that raises questions in my mind whether that is really an expenditure. If you can't pay the debt anyway, are you really saving the interest?

The second one assumes that all of that money would actually be used to pay down debt and not spent on bigger government. I have been here long enough to have some doubt about that.

Now, I am not quite sure why it is that the budget—and today in your discussions you are stipulating that, because it seems to me there are two very iffy propositions that cause that to be there at all in that chart.

Secretary O'NEILL. Well, you know, if I could rewrite the way we do business, I would sure take it out in a minute, because I don't think it makes very much sense, but it is a convention that you among yourselves have agreed to as the way we must do these things, so we have done what you require. I do believe, as Dr. Martin Felstein, one of the most preeminent economists in the world, says, that in all likelihood, the President's tax proposal when it is all said and done is going to cost $600 billion less than what we have attributed to it because the impact as it flows through the economy is going to be to generate higher levels of revenue and business activity, and therefore higher levels of tax take for the Federal Government. But we don't permit ourselves to do what is called dynamic scoring. So in effect what we do is we have scissors with one blade, and it is the blade that says if you do something like a reduction in taxes, then you have got to charge yourself interest for it, and you can't pay attention to or anticipate what the next set of effects are in the economy. So I don't like it a whole lot, but it is a convention you all agreed to, and we have to play by your rules.

Mr. THORNBERRY. Let me ask you one other thing. You have heard reference a few moments ago to the fact that various government retirement funds have investments in securities and various places.

Coming from where you have recently come from, can you discuss with us a little bit what we have to be mindful of if we get to the point that we have significant cash in the government that we start to put into private markets in some way? How does that affect private markets? Tell us what we need to be thinking about if that were to come to pass.

Secretary O'NEILL. You know, I have been thinking about this, because there has been so much in the news, and people have talked about it a lot.

One of the things that creates the spirit of enterprise and productivity growth is, frankly, a fear of failure, and if you can endlessly fail and there is somebody still there pumping money into you—I don't think there is a single place in the world where you can find entrepreneurial spirit and fantastically good productivity where the fear of failure is not present.

I give to you as an example from my experience in going to Russia in the last 10 years and spending a lot of time looking at their facilities and looking at how they operate. It is just unbelievable how awful an enterprise can be and how awful it can be for the human beings in it if there is an underlying assumption that there is no way of failure. I take you in your mind to Siberia, to a Russian aluminum plant which is one of the biggest aluminum plants in the world. The life expectancy in this town called Krasnoyarsk, 1 million people, is 47 years. The reason it is 47 years is because they have contaminated their own water supply with nuclear poisoning, and so they are killing off the people.

If you go into this plant, you would not believe the interior environment of this plant. You can't see. I would not be able to see the Chairman if I was this far away from a person in this plant because of the unbelievable pollution that exists in the building. And they have been going on like this for decades. Why did they do this, how did they get away with this? Because there were no fear of failure, no standards that human beings are important.

I think when you see—if you travel around the world and see the conditions that people live in, where capitalism and the fear of failure doesn't exist, you rush back to the United States with a happiness that you have been permitted to live your life in these circumstances. And I think we don't even want to approach the outskirts of governmental ownership of enterprise in this country of the kind that would be involved in our beginning to buy enterprises where we effectively take away their fear of failure, because if they fail, we pump in more money. It is a route to doom.

Mr. THORNBERRY. What would our other alternatives be if we had these cash money surpluses and we don't let people keep more of their money; what is the alternative?

Secretary O'NEILL. Well, you all could certainly spend it. There is not too much doubt about that. That is not, frankly, an appealing option for me as well. It is better, though, than having you own the private enterprise.

Chairman NUSSLE. Thank you.

Mr. Price.

Mr. PRICE. Thank you, Mr. Chairman.

Mr. Secretary, I thank you for being with us here today. Let me, apropos of Mrs. Clayton's line of questioning, ask you for the record to respond to some distribution figures that come from William Gail at the Brookings Institution. You made a disparaging remark about advocacy statistics, and, of course, we are in a climate where anyone who dares refer to a distribution table is accused of class warfare. But I think we need to look at the distribution tables. The figures I have, this is from Mr. Gail, the top 1 percent income group in this country pays 21 percent of Federal taxes, gets 36 percent of the Bush tax cut; the top 5 percent, 37 percent of Federal taxes, 49 percent share of the Bush tax cut.

I would just appreciate your deconstructing those numbers for me. If those are faulty advocacy statistics, I would like to know it.

Let me move into some other questions for our oral exchange here, if you don't mind, because we have limited time. We have the chart back up here. There seems to be an ongoing question today about whether we are putting the taxpayers first or last or somewhere in between. I would like to reassure you that I think virtually every Member of Congress is ready to vote for tax relief and believes that tax relief ought to be part of this budget, but we do have some honest questions about whether we ought to be shoving through a tax cut in advance of a budget, how large that tax cut can responsibly be, and also what a fair distribution of the tax benefits would be. Those are legitimate issues which we must debate.

How much is available for a tax cut? Now, we had an earlier discussion here about the treatment of these trust funds, and you seem to be suggesting that somehow the Social Security Trust Fund and the Medicare Trust Fund ought to be treated differently, but I am not sure I understand the basis for that.

You yourself have argued for reserving the proceeds from the Social Security surplus, and you have treated that as a principle of some importance. You have then said that it really is not important to do that with Medicare. In fact, it is somewhat misleading to suggest it even with respect to the Medicare Trust Fund.

Why would the arguments you have made against reserving funds borrowed from Medicare Trust Fund, why wouldn't they also apply to the Social Security Trust Fund; and vice versa, why wouldn't the arguments you have made for reserving the Social Security Trust Fund not then argue for the same treatment of the Medicare Trust Fund? I don't understand the basis on which you are differentiating between the two.

Then, secondly, as Mr. Spratt was asking, this $1 trillion in reserve funds, I think the way we get there from these figures to yours is by not reserving the Medicare surplus, and, of course, by picking up the $207 billion that we have on this chart, and then as you have said, not accounting for extenders and fixing the AMT. So that is how we get to the $1 trillion contingency fund.

You said one possible claim against that fund would, in fact, be the extenders and the AMT, and I am not sure if you think that would be a good idea or not, but you are acknowledging that that may be something that there is a lot of support for.

This spending program, we have beyond-inflationary increases proposed for defense, for education, for medical research, presumably for adding prescription drugs to Medicare. If the overall increase is around 4 percent, then that surely implies below-baseline decreases for a number of other items. One estimate has said about 7 percent decrease in everything else. Is that really sustainable? Presumably that might be a claim against this contingency fund. Of course, calling it a contingency fund suggests that you are acknowledging that these surplus projections may be a little shaky. After all, two-thirds of the surplus projections are more than 5 years out. So the whole idea of a contingency fund is to have some cushion in case the surpluses don't materialize. So what is the range of claims on this contingency fund, and is it going to, in fact, reliably function as a cushion?

Secretary O'NEILL. Well, let me start back with your reference to Mr. Gail. Let me say apparently I am not that clear in what I say, so let me try again.

Mr. PRICE. If you don't mind, I did ask you to respond for the record to that, because I am much more eager to have an exchange on these other items.

Secretary O'NEILL. If I may, let me make sure I understand the question, and then I will respond for the record. As I understand the question, Mr. Gail asserts that right now the top 1 percent pay 21 percent, I want to make sure I wrote these down right, and I didn't get what he said they are going to be paying after the President's tax reduction. What percent will they pay afterwards?

Mr. PRICE. I will be happy to give you his full distribution chart. I was just taking those two numbers from it. He is saying 21 percent share of Federal taxes, 36 percent share of the Bush tax cut.

Secretary O'NEILL. He doesn't give you how much the top payers are going to be paying after the tax relief is put in place. I think you will find it is 22 percent.

Mr. PRICE. This is the share of the tax cut which they are receiving.

Secretary O'NEILL. I am trying to get at how progressive the tax is going to be. It seems to me that is the appropriate comparison. The President's tax proposal would make the Tax Code more progressive. What I am suggesting to you is what I suggested to your earlier line of questioning on this, that the way these statistics are put together, both by Mr. Greenstein and by Mr. Gail, is to confuse on the one hand what is happening with the flow of funds, and, on the other, what is ending up to be the responsibility of a particular group of people to pay for public goods and services. The President's proposal would shift the incidence of tax burden to higher-income people in a relative sense compared to where it is today.

Mr. PRICE. I must say that if these figures are correct as to where the preponderance of the breaks from the Bush proposals go, then that would be an incompatible outcome. I would appreciate, as I said, your deconstructing these figures for us. If there is something wrong with these figures, letting us know what the problem is.

Secretary O'NEILL. I would be very happy to do that.

[The information referred to follows:]

RESPONSE TO QUESTION SUBMITTED BY MR. PRICE CONCERNING DISTRUBITIONAL FIGURES

The distributional figures cited by Mr. Price were prepared by William Gale of the Brookings Institution. It is not possible to deconstruct the figures without a detailed explanation of how the figures were derived, and the assumptions made in their derivation. However, the basic issue is how large a share of the tax burden will be borne by upper-income taxpayers once the President's tax proposal is enacted. The figures cited by Mr. Price do not include this basic information. However, the Treasury Department has prepared a distributional analysis of the major individual income tax provisions in the President's tax proposal that does include this information.

The Treasury table is attached. It shows that the share of income tax relief provided to families with incomes under $100,000 is larger than their share of current income taxes paid (compare the first and second columns). As a result, these families will pay a smaller share of the total income tax burden under the President's proposal than they do under current law. Conversely, the share of the income tax relief provided to families with incomes of $100,000 or more is smaller than their share of current income taxes paid. As a result, these families will pay a larger share of the total income tax burden under the President's proposal than they do under current law.

MAJOR INDIVIDUAL INCOME TAX PROVISIONS OF THE PRESIDENT'S TAX PROPOSAL[1]

[2000 Income Levels]

Cash income class[2]	Distribution of proposed changes in individual income taxes (percentage)	Distribution of total individual income taxes[3]		Average individual income taxes with proposed changes (dollars)	Percent change in individual income taxes
		Current law (percentage)	With proposed changes[4] (percentage)		
0–30	9.3	–1.0	–2.8	–457	–136.2
30–40	6.5	2.5	1.8	993	–38.3
40–50	7.8	4.1	3.4	2,210	–28.0
50–75	17.2	12.2	11.3	4,279	–20.8
75–100	13.6	12.2	12.0	7,848	–16.3
100–200	19.8	27.1	28.3	16,625	–10.7
200 and over	25.4	42.9	45.9	103,931	–8.7
Total[5]	100.0	100.0	100.0	6,322	–14.6

Source: Department of the Treasury, Office of Tax Analysis, March 8, 2001.

[1] The major individual income tax provisions are: i) lower individual income tax rates (lower 39.6 and 36 percent rates to 33 percent, lower 31 and 28 percent rates to 25 percent, and introduce a new 10-percent rate bracket for taxable income (in 2006) under $6,000 for single filers, $10,000 for head of household filers, and $12,000 for joint filers); ii) increase the child credit to $1,000, raise the income level at which it phases out, and allow the child credit against the AMT; iii) allow a 10 percent deduction for the earnings of the lower earning spouse (up to $30,000) in two-earner families; iv) allow taxpayers who do not itemize to deduct charitable contributions up to the amount of the taxpayer's standard deduction; and v) provide a refundable tax credit for individually-purchased health insurance.

[2] Cash income consists of wages and salaries, net income from a business or farm, taxable and tax-exempt interest, dividends, rental income, realized capital gains, cash transfers from the government, and retirement benefits. Employer contributions for payroll taxes and the federal corporate income tax are added to place cash on a pre-tax basis. Cash income is shown on a family rather than on a tax return basis. The cash incomes of all members of a family are added to arrive at a family's cash income used in the distributions.

[3] The refundable portions of the earned income tax credit (EITC) and the child credit are included in the individual income tax. Individual income taxes are estimated at 2000 income levels but assuming fully phased in law and, therefore, exclude provisions that expire prior to the end of the budget period and are adjusted for the effects of unindexed parameters.

[4] The change in individual income taxes is estimated at 2000 income levels assuming fully phased in law.

[5] Families with negative incomes are excluded from the lowest income class but included in the total line.

Secretary O'NEILL. If I can remember the thread of the other pieces, one that occurred to me, and I wrote down a number of $3 trillion, was a question of what are the other things that are competing for the $1 trillion contingency that the President has identified?

Mr. PRICE. I asked you why the differential treatment of the two trust funds, and I asked you what is the range of claims on the $1 trillion.

Secretary O'NEILL. OK. Let me deal with the range of claims first. As I have been testifying and talking with Members over the last 5 weeks, I don't say this in a facetious way, I would say to you the range of claims are $3 trillion or $4 trillion. There seems to be no end to the individual appetite which add up to numbers that would not only eat all of the increases proposed by the President for priority things, but in truth the whole $5.6 trillion, I think, could be consumed by the appetite of Congress if it was on the table. I honestly believe that to be the case, as I have wandered around and listened to people and what they think we should be doing.

Mr. PRICE. Mr. Secretary, with due respect, you yourself portrayed a few moments ago the $300 billion for the tax extenders and the AMT as a legitimate possible claim against the $1 trillion contingency fund, did you not?

Secretary O'NEILL. I meant by that there are people who would like to do that. There are people who would——

Mr. PRICE. I would daresay 99 percent of the Congress would like to do that. These extenders passed unanimously. Who is going to let 26 million taxpayers bump up against the AMT?

Secretary O'NEILL. I don't know how long the AMT has been in the Code, but it is a heck of a lot longer than 1 year. It has been a burgeoning problem for 20 years or so, and now you are saying that we should accept the burden for fixing the whole thing immediately on the first year of our watch? What we have said is we have got this position, so in combination with the child credit, as a generalization almost no family with income under $100,000 is going to get hit in the near term by the AMT, and, in fact, everyone—no one will be worse off because of the AMT after the tax reduction. But if some of you believe that you want to take money away from the contingency fund or away from the phase-in schedule of the President's tax proposal in order to fix AMT, that is certainly a discussable item if that is what your preference is.

Mr. PRICE. Thank you.

I think the estimate on the AMT fix is actually a very conservative estimate as to what it would take to fix it over a 10-year period. It doesn't anticipate doing it all at once. May I ask, Mr. Chairman, since our time has expired, I would appreciate for the record your indicating to me exactly on what principled basis you are distinguishing between the Social Security Trust Fund and the Medicare Trust Fund in terms of their treatment in this budget.

[The information referred to follows:]

RESPONSE TO QUESTION SUBMITTED BY MR. PRICE CONCERNING THE SOCIAL SECURITY TRUST FUND AND THE MEDICARE TRUST FUND

The Administration has the same policy toward Social Security and Medicare. All funds collected for each program should be dedicated to that program. In the case of Social Security, more funds are collected than are needed to pay current benefits—thus, the Administration has pledged to wall off and reserve this surplus for Social Security. In contrast, all Medicare funds are used for current expenditures—thus, there are no excess taxes/premiums to wall off.

Medicare has two trust funds—the HI, or Part A, trust fund and the Supplementary Medical Insurance (SMI), or part B, trust fund. The SMI trust fund receives substantial transfers from the general fund since premiums collected cover only 25 percent of program costs—thus, from the perspective of the overall Federal budget, it is running a large deficit. The SMI deficit is far larger than the HI "surplus", meaning that Medicare as a whole faces an overall shortfall of $50 billion in 2002 and $643 billion from 2002–2011. Thus, there is no Medicare "surplus."

It is also important to note that roughly one-third of the HI "surplus" is the result of an accounting gimmick from the 1997 Budget Agreement. The prior Administration and Congress opted to improve the apparent solvency of the HI Trust Fund by moving a large portion of one of its fastest-growing programs at the time—home health care—out of the HI Trust Fund and into the SMI trust fund. This had no effect on Medicare's total spending, but gave the illusion that HI solvency was extended and its "surplus" increased. Accounting gimmicks, such as this one, increase complacency over Medicare's future and undermine the prospects for needed reform. This shows the risk with focusing on just one part of Medicare instead of viewing it as a whole.

Chairman NUSSLE. Actually at this point, Mr. Price, what I would suggest it is that I ask unanimous consent that all Members have 7 legislative days in which to submit written questions, and that for the record, so that all Members that may have a question, whether it is similar to that or otherwise, may do so. Is there objection to that?

Without objection, so ordered. Thank you.

RESPONSES TO ADDITIONAL QUESTIONS SUBMITTED BY MR. PRICE

1. The Administration has the same policy toward Social Security and Medicare. All funds collected for each program should be dedicated to that program. In the case of Social Security, more funds are collected than are needed to pay current benefits—thus, the Administration has pledged to wall off and reserve this surplus for

Social Security. In contrast, all Medicare funds are used for current expenditures—thus, there are no excess taxes/premiums to wall off.

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2. It is not possible to evaluate the accuracy of the figures without a detailed explanation of how the figures were derived, and the assumptions made in their derivation. However, the basic issue is how large a share of the tax burden will be borne by upper-income taxpayers once the President's tax proposal are enacted. The figures cited by Mr. Price do not include this basic information. However, the Treasury Department has prepared a distributional analysis of the major individual income tax provisions in the President's tax proposal that does include this information.

The Treasury table is attached. It shows that the share of income tax relief provided to families with incomes under $100,000 is larger than their share of current income taxes paid (compare the first and second columns). As a result, these families will pay a smaller share of the total income tax burden under the President's proposal than they do under current law. Conversely, the share of the income tax relief provided to families with incomes of $100,000 or more is smaller than their share of current income taxes paid. As a result, these families will pay a larger share of the total income tax burden under the President's proposal than they do under current law.

3. The $1,600 figure is the income tax cut a middle-income family of four would receive from two provisions of the President's proposal when the income tax provisions are fully phased (in 2006): the new 10 percent bracket and the $500 increase in the child tax credit. The tax cut from the new 10 percent tax bracket for this family would be the reduction in the tax rate (5 percent, from 15 percent to 10 percent) times the size of the bracket ($12,000 for joint filers), a tax cut of $600. This family would receive a tax cut of $1,000 ($500 per child) from the increase in the child tax credit. The family's total tax cut is therefore $1,600.

For all joint filers with dependents who receive an income tax cut, the median tax cut in 2006 will be $1,856. This is more than the $1,600 figure because the President's proposal includes other income tax provisions that will benefit many of these families. In particular, many of these families will benefit from marriage penalty relief provided by the two-earner deduction, and from the new deduction for charitable contributions for non-itemizers. Approximately 60 percent of all joint filers with dependents who receive an income tax cut will receive a tax cut of $1,600 or more in 2006.

For all taxpayers, with or without dependents, who receive an income tax cut, the median tax cut in 2006 will be $692. Approximately 25 percent of all taxpayers who receive an income tax cut will receive a tax cut of $1,600 or more in 2006.

Mr. Culberson.

Mr. CULBERSON. Thank you, Mr. Chairman.

Mr. Secretary, thank you so much for being with us today and for your concise and very clear explanation of what President Bush has laid out. It has been my experience in 14 years of serving in the Texas House under Governor Bush that he and you are both correct, that if we do not refund this tax surplus to the people that pay it, that the government will consume it and spend it, and you will have a bureaucracy that will continue to grow ad infinitum into the future.

I wanted to ask you about the tax cuts that President Kennedy and President Reagan proposed. I am succeeding Chairman Bill Archer, and Chairman Archer calculates that the Reagan tax cut, if placed in today's dollars, would be approximately $5.5 trillion. Have you heard that number?

Secretary O'NEILL. Yes, indeed, that is correct.

Mr. CULBERSON. And the Kennedy tax cuts, I have not heard that number in today's dollars.

Secretary O'NEILL. It would be even larger. It is an even larger number.

Mr. CULBERSON. That may be one that I will submit in writing, because it would be interesting to know that in terms of comparison. Those who oppose President Bush's tax cuts are attempting to make that comparison, and I think that quickly exposes to the American public that comparison is not valid.

[The information referred to follows:]

RESPONSE TO REQUEST SUBMITTED BY MR. CULBERSON CONCERNING THE KENNEDY AND REAGAN TAX CUTS

Mr. Culberson stated that he will submit a question in writing regarding the relative sizes of the Kennedy and Reagan tax cuts. We are not aware of any question that has been submitted.

Mr. CULBERSON. One other point that I think also illustrates the fact that you cannot compare the very modest tax cut that President Bush is proposing with the Reagan tax cut, I wanted to confirm with you, is that there is, from my understanding—that after the Reagan tax cuts of 1981, that Federal revenues increased, doubled essentially, but that the Congress increased spending by a factor of three times.

Secretary O'NEILL. Precisely right.

Mr. CULBERSON. Which anyone out there listening can immediately understand that if the tax cut doubled revenues, but Congress tripled spending, that is where the deficit came from.

Secretary O'NEILL. Exactly right.

Mr. CULBERSON. So that illustrates very clearly why that argument does not hold water.

One final point that was a surprise to me as a new Member of Congress and sitting in on the Budget Committee discussions of the President's budget and the unchartered waters, as Mr. Sununu says we have now entered, is the fact we can only pay down so much of the debt so quickly without incurring significant penalties. I was surprised to learn that, as were my constituents when I returned to Houston this past week and meeting with large numbers of constituents who were really quite surprised to learn that information. That is something none of us really thought about before.

I wanted to ask you if you could please for the record, reiterate for the listening public and everyone, the President's budget proposal proposes to pay down as much of the public debt as can be paid down without incurring penalty.

Secretary O'NEILL. That is exactly right. Exactly right.

Mr. CULBERSON. Finally, if I could, I wanted to ask you about the earned income tax credit that was enacted long before my time here. It is my understanding the purpose of the earned income tax credit was to offset the cost of Social Security or payroll taxes for those individuals who were not paying taxes, and that earned income tax credit has increased over the years.

Secretary O'NEILL. It is running right now about $32 billion at an annual rate.

Mr. CULBERSON. Thank you, Secretary O'Neill, for your testimony and for the approach you are taking. I can testify from personal experience in Texas to the benefits of the tax cuts that Governor Bush enacted in Texas. They had a dramatic impact on our economy. It kept the size and cost of the State government in line. I am looking forward to seeing that same benefit occur at the national level and supporting the President in any way I can. Thank you, sir.

Chairman NUSSLE. Mr. Clement.

Mr. CLEMENT. Thank you, Mr. Chairman.

Mr. Secretary, congratulations to you on your new position.

Secretary O'NEILL. Thank you.

Mr. CLEMENT. I know you were with a very fine company as Chairman and CEO of Alcoa. You have a major presence in the State of Tennessee.

I also want you to know that myself, as well as Congressman Brian Baird from the State of Washington, introduced legislation on the Sales Tax Deduction Act of 2001. The reason we did it, we have States such as Florida, Texas, Tennessee, Nevada, South Dakota, Washington and Wyoming, that do not have a State income tax, and we don't feel like our people should be forced to move to a State income tax if they don't want to, but we cannot deduct our State sales tax from our Federal income tax return. But if you live in a State that has a State income tax, you can deduct that from your Federal income tax return. As you know, that was taken away from us in 1986, in the 1986 tax reform. That is why it is critically important that we must correct this problem, because we really are serious about tax fairness and tax simplicity. I know you mentioned a while ago about the Tax Code and about how much it has grown over the years, and I sure agree with you there. But we feel like, you know, if we want to bring about some tax fairness and tax simplicity, and if we do want a tax cut, there are a lot of people that want to help and support and move in that direction, but we want an overall package that makes common sense and is fair to the American people and to all States, and not just some States.

I also want to ask you about the trigger. I know the Bush administration seems to be on record opposing the trigger. What I mean by the trigger simply, for all concerned, is what if these forecasts are not correct? What about something that happens overseas, an international incident? What about if the economy deteriorates much more than it is deteriorating now? Because we do have some softness, and even Chairman Greenspan said even yesterday he doesn't really know the state of the economy today.

Why shouldn't we have a trigger just to protect ourselves if we really had a downturn and these surpluses really don't materialize after all?

Secretary O'NEILL. All right, good. There is kind of a siren song with the idea of a trigger, because it sounds so logical, and as I spent a lot of time thinking about it, how would one actually construct a trigger? Let me use the idea of marginal rate reductions as a way to think this through with you.

With what is moving through the House today, the Ways and Means Committee today, is marginal rate reductions, and they are phased in over time. They don't become fully effective, and I am not sure, because I have been busy all day testifying, but I think they are phased in over a 4- or 5-year period. So it all sounds pretty slick.

Let's say you put a trigger on and say you don't actually let the next phase go in in 2003 if for some reason you don't like what the circumstances are.

Let me tell you what I think the world looks like from a regular family person out there in America. If you all pass a tax bill with marginal rate reductions in it that, say, to a low-income family gives them, let's say, $500 worth of money that they get to keep that they thought they were going to send to Washington, and they are thinking about buying a house. That $500 gives them the ability to buy a house if the interest rate is 10 percent. That is $5,000 more house than they could buy before you gave them a $500 tax deduction on an annual rate basis. So the leveraging effects of giving people back money for buying homes or buying cars is very substantial.

Now, if you say to them, well, we are going to give it to you, but we are not sure we are going to give it to you, then they are not going to be able to make that kind of a long-run decision about housing purchases and automotive purchases and longer-run decisions that families need to make, or about decisions about how much money they should be putting away for college education.

So if your intent is to help people, then you are going to have to vote to help people. If your intent is to suggest to them that maybe sometime in the future, if the sun keeps coming up, you are going to help them somehow, you are not going to get much of a value from an economic point of view by dribbling out the amounts and leaving huge uncertainty in people's minds about when they are ever going to get it.

If you wanted to argue, on the other hand, you wanted to put a trigger into estate taxes or death taxes, I suppose you could do that, but I can't imagine the wrestling match you would have with your constituents when you got home and said to them, well, you know, we decided we are going to eliminate death taxes, but you better make sure you hold out until the trigger lets you do it.

I just don't know how to make sense out of what is an appealing idea of a trigger except in this way. I told you a trigger I would like. I would like a trigger that said after we do the structural changes to the Tax Code, from now on, whenever we run a tax surplus at the end of a fiscal year, at the end of September 30th, of more than $25 billion, that we have a proposition which says we will send 65 or 75 percent of all the extra money we collected back to the people who sent it in, no ifs, no ands, and no buts.

Secretary O'NEILL. Not but, but here comes your money, and you get it, wouldn't it be great if they got it on December 1st? I would love that kind of a trigger.

Mr. CLEMENT. Thank you, Mr. Secretary.

Chairman NUSSLE. We actually had a vote on trigger locks not too long ago. Maybe that is what we should do.

Mr. Hastings.

Mr. HASTINGS. Thank you, Mr. Chairman, and congratulations, Mr. Secretary.

I think your last remark regarding the triggers is a very sound idea. I find it interesting that when people talk about triggers on anything, it is generally on the revenue stream, and never on the appropriations stream. It seems to me if you want to be fair and honest and approach it in that way, you ought to be at least consistent on both sides.

Mr. Secretary, I come from a rural district, a farm district, very diversified district, in central Washington. We grow a variety of crops, and virtually none of them are doing very well right now. Some of the prospects for the future with a low water year, which is critical in eastern Washington from a hydropower standpoint, and rising energy costs, and, of course, the prospect, at least today, of farm prices not increasing, I would like to know how the President's plan could potentially help farmers.

One idea, as I understand it, he is contemplating is an idea of what we call farm income management accounts or something to that extent, where a farmer can put money aside from the good years for the bad years. Would you elaborate on that, please, for me?

Secretary O'NEILL. Well, you know, I don't think I can help very much, because I don't know a lot more about it than what you have said. It is not an area that I, frankly, have had time in the last 5 weeks to really specialize in. But my impression and understanding of what it is the President is thinking about is exactly that, in effect a device that would allow farmers to create what you might characterize as a rainy day fund to get them over the ups and downs of the notorious cycles agriculture people have to deal with.

Mr. HASTINGS. That is correct. I would be willing to certainly work with you on that, because that has a great deal of interest, and I know my constituents would, too.

One final comment I would like to make after listening to the testimony here and remarks from members of this committee and then outside this committee about focusing on how we deal with the surplus, whether we should have a tax relief or not, I think it is just worth reminding you and my colleagues here that when we passed the Balanced Budget Act in 1997, we contemplated balancing the budget next year. So when we look at it, I recognize how tough it is to anticipate revenues way off into the future. There is no question it is an inexact science, because we missed this one here by 3 years out of the 5-year projection. So I think that is the best evidence. You are dealing with the best evidence that we have today, but, more importantly, and I mentioned this to Mr. Daniels when he was here earlier today, it is very refreshing to me to have the opportunity to debate in this committee and this Congress what we are going to do with surpluses, and also to debate in this committee and this Congress, and it has already passed the Ways and Means Committee, that we are going to have tax relief. I suspect your time in the private sector and your time here, 30 or 40 years ago, whenever it was, that that has got to be refreshing for you, too.

Secretary O'NEILL. I don't remember ever having an experience like this. It is a much better one than the other.

Mr. HASTINGS. Let's enjoy it together. Thank you very much.

Chairman NUSSLE. Mr. Moran.

Mr. MORAN. Thank you. I have a series of questions.

Chairman NUSSLE. You have to turn your microphone on, right at the bottom there.

Mr. MORAN. Thank you very much, Mr. Chairman. That is very helpful. Boy, this technology.

Chairman NUSSLE. The bipartisanship we are trying to show.

Mr. MORAN. You have to think twice.

Are you a supply-sider, Mr. Secretary? Do you consider yourself a supply-sider?

Secretary O'NEILL. No, I don't.

Mr. MORAN. You don't?

Secretary O'NEILL. I don't consider myself much of anything that people can put a label on. I am one who believes—I forgot who it was that said, I believe, and therefore I think; therefore I am. That is what I am.

Mr. MORAN. I am not sure I want to get into the etymological theory, but metaphysics, this is a little more pragmatic, the questioning I want to ask of you.

You buy into the theory that we need a tax cut in order to stimulate the economy as it exists today?

Secretary O'NEILL. I buy into the idea that we are in a very slow period in our economy, and if we can reflow some of the taxpayer money to them, it will be helpful to avoid a deeper downturn and perhaps make the downturn more shallow and speed us into the next upside improvement.

Mr. MORAN. What I would like to get into, Mr. Secretary, is the specifics of what you mean and some of the timing.

It has been suggested that the Congress would have to act at warp speed to get a tax cut to the President's desk by the August recess, for example. Are you planning on us getting it to the President's desk and enacted before the August recess?

Secretary O'NEILL. I would hope before the April recess.

Mr. MORAN. Before the April recess. All right. Well, boy. OK.

Secretary O'NEILL. But you have to——

Mr. MORAN. Are you thinking we are going to get this before the April recess? Holy smokes.

Secretary O'NEILL. If I may say one more thing on this, you know, again, I have only been here for a little while, and I just got out of the private sector. If I had decided that I was going to give my employees a raise, believe me, it wouldn't take me 9 months to get it done.

Mr. MORAN. This could be a very disillusioning experience for you, Mr. Treasury Secretary, I am afraid. Anyway, you want to get it done.

Let's just say the experts in the budget and appropriation and legislative process are right, and it takes us until August to get a bill. Do you think there would be as compelling a need to stimulate the economy if it took, for example, 6 months, maybe even 9 months, before it could get enacted? Would it then be as needed?

Secretary O'NEILL. I don't know, and I don't mean to be presumptuous, but I sure wouldn't want to go home and explain to my constituencies, if the need looks like it did now, why it took me 9 months and I didn't do anything.

Mr. MORAN. I think it is probably going to get through the House. The Senate may be another story. What I am trying to figure out is how much of the rationale behind this tax cut is due to the need for economic stimulus.

Secretary O'NEILL. I would say none.

Mr. MORAN. None?

Secretary O'NEILL. The President articulated these principles and ideas beginning 2 years ago. The principles and ideas you have in front of you are exactly what he talked about when he announced his candidacy in Iowa over 2 years ago. So this is not a bill of convenience, but the idea of taking especially the rate reductions and the child credit and using them to flow money back to people right now, I think, is strongly suggested by the economic circumstances we have, and in addition to that, the structural ideas are timelessly important and valuable.

Mr. MORAN. So from the standpoint of trying to get this tax bill enacted, it is actually fortuitous that we have an economic downturn. But I am putting those words in your mouth. Those are not your words.

Secretary O'NEILL. I would tell you when I look at what we can do more for us to be a better society, not just here, but around the world, believe me, I don't welcome a downturn ever.

Mr. MORAN. I understand.

Mr. Secretary, do you think that this could make the difference between a slow landing and a recession perhaps? On a scale of 1 to 10, what do you think are the chances that this country could go into a recessionary period?

Secretary O'NEILL. I don't know. Mr. Greenspan and I are good friends, and we talk to each other all the time. I talked to him a couple times this morning. I think I see the data as he does. We are running in a bandwidth now, someplace between minus .5 and plus .5 in real growth, which is to say kind of bouncing along at zero. Most of the bettors think we are not going to go into a recession. I don't know. I haven't seen enough data to draw a conclusion yet. Alan will probably draw it before I do, but I think, when you get into this kind of stage in the economic cycle, the thing that he has called a lot of attention to, and I agree it is very, very important, and those are the expectations people have and the confidence people have going forward which causes them to make that decision to buy a new house or a new car or new washing machine or to take a vacation or the rest.

So economics is very important, especially in these levels of expectations and the confidence business.

Mr. MORAN. Let me ask you, Mr. Secretary, in a period like we have today, do you think that monetary policy is more effective than fiscal policy, particularly given the time frame for fiscal policy to be implemented? And if that is the concern, the ability to buy durable household goods, for example, and homes and so on, reducing interest rates would be more effective than fiscal policy or tax policy; would it not?

Secretary O'NEILL. I don't know. You know, it is not clear to me that it is really smart to do this on an either/or basis since there is general agreement. At least I have not found yet in all the testimony I have done a single Member who says to me we should have a zero tax cut, which suggests to me everyone agrees we should have a tax cut.

Then the question is if we are going to do it, why don't we do it quickly, because it can be useful to a degree, and it is what I call the belts-and-suspenders approach; if you can have both, why not wear them both?

Mr. MORAN. Well, I appreciate your responses to these questions. I am also cognizant of David Stockman's book. I suspect you read it. So much of selling the tax cut was spin, and much of it was expedient type of spin, you know, all of a sudden they found the supply side theory, and at one point he says that supply side was really trickle down theory under a different cloak.

I want to ask you specifically a couple other questions quickly. First of all, if we passed it, how long is it going to take for your IRS to change the Tax Code and to get it in shape so it will be reflected immediately in tax returns?

Secretary O'NEILL. Probably 5 or 6 weeks. We began—we have looked at the history. I have had a meeting with Charles Rossotti and his technical people at the IRS to look at not only the question of how quickly can we change the withholding tax, but I asked him to entertain a question, is it at all feasible to think about sending people refund checks? I think the answer to that is no. But I do think that in a 5- or 6-week period we can get the withholding tables fixed so that they will not come back to bite us.

This is an important technical question of how we do this correctly so that we don't create a situation where people have more withholding. That then makes them feel like they got a tax increase next year. So we are working on these things.

If I may say one more thing, you know, Stockman found it necessary to write a confession book after he left here. I must tell you, I don't ever expect to write a confession book, because what I am going to say to you all every day when I say here is exactly what I believe, and not with some duplicitous purpose and intent to mislead.

Mr. MOORE. We are confident that is the case, Mr. Secretary, but that is important to get down. You figure that even if we went at warp speed and got this bill enacted, it would be about 5 or 6 weeks before it could possibly be reflected in withholding, and you also said that——

Secretary O'NEILL. Maybe May 1st.

Mr. MORAN. The idea of it really affecting calendar year 2000 tax returns is somewhat remote. Is that a fair statement?

Secretary O'NEILL. You know, no one I know has suggested that we should try to do a calculation based on the year 2000 tax year. No.

Mr. MORAN. 2001.

Secretary O'NEILL. Oh, yes, we could have a big effect on 2001. If you would give us the luxury of passing a tax bill, let's say by the first of April, I will figure out some way that we can—I don't know exactly how, but I will figure out a way that by May 1st the withholding tables are fixed, and your constituents will begin seeing a difference in their withholding.

Mr. MORAN. Wow, that is a pretty strong promise, Mr. Treasury Secretary. Good luck. I think it is probably a moot scenario, to be honest with you.

Secretary O'NEILL. I would love to have the challenge.

Chairman NUSSLE. The gentleman's time has expired.

There is one rule of thumb around here: You don't pass anything on April 1st.

Secretary O'NEILL. I would say March the 31st would be terrific.

Chairman NUSSLE. The gentleman from New Hampshire Mr. Bass.

Mr. BASS. Thank you very much, Mr. Chairman.

I would admonish my colleagues not to dampen the Secretary's enthusiasm so early in his career. We sound like a bunch of hardened cynics.

I must admit, having been on this committee now for 6 years, it amazes me how the debate has changed since we arrived here. The talk of deficit elimination was stuff of cocktail party jokes. As recently as 2 years ago, we never even considered the concept of making a commitment to take the entire Social Security surplus off budget. In fact, I sat in this room and was lectured about why it didn't really matter.

But we moved forward substantially. I would point out to my dear friend from Virginia that this conference tried to cut taxes twice, once in 1999, $745 billion tax relief package, which was ridiculed, and secondly, last year, with the marriage tax penalty elimination, which was vetoed, and perhaps if those tax relief packages had passed, maybe the economy wouldn't be in as threatening a situation as it is today.

The other observation I have to make, Mr. Chairman, is it is extraordinary to me how the debate has changed, and it should be a delightful debate, but only in Washington and in Congress can you turn a subject as good as discussing the disposition of the surplus into a disagreeable debate.

I would also like to extend, if I could, for a second, the President's Goldilocks quote, as I think it is going to come to be known, to a rather somewhat broader range. You come from a business background, and so do I, and when you have what can only be called a workout situation with the U.S. Government, which we have experienced here, what do you do when you suddenly develop or discover that you have unanticipated revenues and profits? You do three things: You might make some investments in new equipment, which is what we are talking about with defense spending and education and so forth; you also might give the owners a little dividend so that they continue to invest and have faith in your endeavors; and you pay down some debt, because the banks force you to do so.

The President's budget is not only correct on the tax cuts area, but it is also just right in seeking to achieve the balance in reducing debt, making investments as they are now known, or increased spending, and also cutting taxes.

I would only say, Mr. Secretary, that I hope that although we won't talk about money management at this point, that we can pay down as much debt as we possibly can, and that we endeavor not to become overly invested in the long-term securities, because that would further limit our ability to pay down the debt 8, 10, 12, 15 years from now.

I yield back to the Chairman.

Chairman NUSSLE. Thank you, Mr. Bass.

Mr. Moore.

Mr. MOORE. Thank you, Mr. Chairman.

Welcome, Secretary O'Neill. I am new to the Congress, just 2 years here at least, so I am learning along with you. But I appreciate your testimony.

I wanted to just ask you a few questions, make some observations, I guess. You have indicated that Chairman Greenspan is a good friend of yours, and you know from talking to him, I am sure on a daily basis, and hearing his testimony before the Senate Budget Committee and the Financial Services Committee more recently that his first priority still is paying down national debt before tax cuts even. You understand that?

Secretary O'NEILL. Right.

Mr. MOORE. Do you agree with him on that?

Secretary O'NEILL. Yes, and I think we are doing that.

Mr. MOORE. OK. Well, I heard, and I am talking about just weeks ago, Democrats and Republicans saying in unison, we should take Social Security and Medicare off the table before we do anything else. So when you look up at the chart up here, you see $5.6 trillion. I am rounding it off to the tenth, $5.6 trillion. If you took Social Security and Medicare off, you would have about $3.1 trillion off, which would leave about $2.5 trillion. We can have a discussion about how you take it off the table and how you, in fact, lock it up or where you put it to be sure, but if my math is right, we end up with about $2.5 trillion if you take Social Security and the Medicare figure off.

My feeling is, and I think a lot of the people, I feel, there—I am not going to speak for the Democrats—I feel we should do that before we start talking about how we allocate up the surplus that is left, and that would be about $2.5 trillion. And what I would like to see, frankly, is that we use some of that for the initiatives the President has identified, and I agree with him on several of those, such as education, such as strengthening national defense, and such as the prescription drug benefit. Then I would like to see us also commit a significant portion to debt reduction beyond the money that we have taken off the table for Social Security and Medicare.

That is where I think we differ from my friends across the aisle here, because as I at least understand what is happening here, the President basically is taking $2 trillion out of Social Security and using that to pay down debt and says, there, we have paid down debt.

Well, in fact, we may have, and we have put ourselves and the country in a better position in the future because of that debt reduction, but what I am talking about is taking all that off the table before we pay down the debt, and the President is using parts of that money of Social Security to pay down the debt. Do I misunderstand?

Secretary O'NEILL. Yes.

Mr. MOORE. Please correct me.

Secretary O'NEILL. I am trying to think about how I can explain the difference between program flows and cash flows in a way that gets to what I think is a very sincere question on your part.

Mr. MOORE. It is.

Secretary O'NEILL. The Social Security money and the Medicare money that is coming in in a definitional sense that goes into a trust fund, everyone has agreed these dollars will only be spent for these purposes. But if you can think about when the cash is coming in, those represent funds in excess of current needs to pay benefits to people who are entitled. So now, look at me, I am your friendly banker, and I have got all this money coming in. What do I do with this money? If I don't invest it, then it is losing value. So what am I going to do with it? I am going to invest it, and in a Federal context that means I am going to reduce debt held by the public down to the point that I can't go any further.

Mr. MOORE. I do understand that; and I have only been here 2 years, but I do understand that. Let me stop you 1 minute. I appreciate your straightening me out, but I do understand that.

I guess what I am saying is we are—and most people in the country might not agree with this, but we in Congress, both sides of the aisle, are intelligent people who want to do the right thing by our country. I would think that you and the Congress working together could figure out some way to actually take that money figuratively off the table and put it in a lockbox, and I don't mean in a mattress, I am not talking about that; and we can have a debate whether it should be in an index fund or whatever, because a lot of States and municipalities do that without any dire consequences, I think. You are shaking your head, and I understand you don't agree with that, but I am saying, that is one option. I am certain we could come up with other options. No? Well,——

Secretary O'NEILL. Well, you know, I suppose certainly there are people who have your views who don't think it is corrosive of our society for the Federal Government to begin controlling private assets. As I have already said to you, I think it is the most corrosive of ideas, because I have a really great fear that it will erode the entrepreneurial spirit with what it means to be at risk of failure. If you are not at risk of failure, it makes an enormous difference in how well you are able to concentrate your mind to produce value for the society.

Mr. MOORE. OK. I do, and I voted last time, to support relief in estate tax and marriage penalty tax, and I still believe those ideals. But I have a very great fear that we have placed a $5.7 trillion mortgage on our kids and grand kids' future, and that is absolutely not fair.

I think if Alan Greenspan were sitting right here, he would say, there are several benefits of debt reduction, first. One is eliminating, or at least getting rid of a substantial portion of that $200 billion plus interest figure we pay each year; secondly, is keeping interest rates lower; and thirdly, is just equity and fairness to future generations in this country.

Secretary O'NEILL. We are going to do every one of the things you just said. With what the President has proposed, we are going to do every single one of the things you said.

Mr. MOORE. I understand, but it seems to me, and I say this with total respect and I mean this, it seems to me like when you are taking the $2 trillion out of Social Security, you are really kind of double-counting the money.

Secretary O'NEILL. No, we are not. Not at all. Not at all.

Mr. MOORE. It seems to me that, but I respect your opinion. Thank you.

Chairman NUSSLE. Mr. Brown.

Ms. BROWN. Thank you, Mr. Chairman.

Mr. Secretary, you gave a figure earlier about the amount of money that is being refunded to the lower income tax—lower income earners, I guess. What was that amount?

Secretary O'NEILL. My recollection is $32 billion on the earned income tax credit this year.

Ms. BROWN. So this is people that don't pay any taxes, but get a check back?

Secretary O'NEILL. That is right.

Ms. BROWN. I was reading your remarks and I notice that you said in 1988 that 10 percent of the income earners pay 65 percent of the tax.

Secretary O'NEILL. That is right.

Ms. BROWN. And the bottom half paid 4.2 percent. That was in 1998. And after, in effect, the President's tax plan, then 10 percent of the income earners would pay 66 percent——

Secretary O'NEILL. That is right.

Ms. BROWN [continuing]. Of the tax. What percent would the bottom half pay?

Secretary O'NEILL. It is fractionally lower. It is 3½ or something like that, but it is lower. It is the point I have been trying to make all afternoon, that the President's tax proposal is more progressive than the tax system as it exists today.

Ms. BROWN. That is where I am leading, and I hope I can ask the proper questions in order to clarify my point.

If we are, in effect, getting $32 billion worth of tax credits back, what of what percent then would the wage earner be credited to the limit of what he pays in for Social Security and Medicare; primarily Social Security, because Medicare—well, both Social Security and Medicare are both special reserve funds for a special purpose.

Secretary O'NEILL. Well, let me do the numbers in my head. I am not sure it is quite right, but let us say this year we are going to take in—I am rounding out $2 trillion, and 4 percent of that is $80 billion, and if $32 billion is subtracted from that $80 billion, then you have reduced the amount to $50 billion coming from that low income group. So in relative terms, you are reducing the burden on the lowest part of the population by something like 50 percent.

Ms. BROWN. OK. So what we—I guess in reference to Mrs. Clayton's question then, we have made concessions to that low income group.

Secretary O'NEILL. Absolutely.

Ms. BROWN. OK. Thank you very much.

Chairman NUSSLE. Thank you.

Mr. Davis.

Mr. DAVIS. Thanks, Mr. Chairman.

Mr. Secretary, I really appreciate your plain speaking style here. Could you briefly tell me why you all decided to set up what you are referring to as this contingency fund?

Secretary O'NEILL. Well, it just seemed to be a way to communicate to the American people that we are not going to the limit of what one might consider in spending the whole surplus or giving back in tax relief all of the surplus, and recognizing the reality of what I have heard even here today, that there are lots of members, and I think lots of committees, and probably each House of the Congress will have things that they are going to want to continue doing where they don't agree with us about things that should be stopped, or new initiatives that they would like to add in. I heard it this morning.

Mr. DAVIS. Mr. Secretary, I am very distressed that at the time we are beginning our discussions as to this blueprint, we have already passed a tax cut in the House Ways and Means Committee that may approximate $950 billion.

My question to you is, if you would accept my assumption that we may deplete this entire contingency fund through these spending proposals up here, does that not distress you about the impact the tax cut might ultimately have on our ability to pay down the debt in this session of Congress?

Secretary O'NEILL. I tell you what, I would be—forget about whether I am Secretary of the Treasury or not. I would be horrified if I thought that the prospect was that we were going to continue to grow Federal spending at 2 or 3 times the real productivity increase in our society. It seems to me that the way to kill our society is to have the rate of increase in the public sector growing at 2 or 3 times what the private sector is able to produce, because what the private sector is able to produce as a residual fraction will go down and down and down. If you think about an 8 percent rate of growth, which is what we had last year in Federal spending, at that level, it takes 9 years for the Federal budget to double, which means we go from $2 trillion to $4 trillion a year in 9 years is a frightening prospect.

Mr. DAVIS. But Mr. Secretary, would you also agree that if we are going to be responsible in our spending habits, we ought to take into account population growth as relates to those programs that are based on population?

Secretary O'NEILL. Our population growth, believe me, is not growing at anything like an 8 percent rate. The incremental growth in our population for the last 25 years or so has been between 3½ and 4 million people a year. So there is no way too justify 8 percent growth rates on the back of a population growth.

Mr. DAVIS. Can you give us any numbers that we can associate with the various proposals, many of which are supported by Democrats and Republicans that the President has advocated, starting with defense?

Secretary O'NEILL. Well, we don't have a proposal to increase defense any more than the $14 billion, which is still a staggering sum to me; $14 billion year-to-year increase for defense. The President has asked the Secretary of Defense to do a complete strategic review, and to come back with recommendations as to how we can create the international military force and capability that we need for the future, without an assumption that we must maintain everything that we have had in the past because it doesn't seem to wash very well that, in fact, the way we are organized and the deployment of weapons we have makes any sense when you look at the future instead of at the past.

So I think it is very likely that the Secretary of Defense will come back with a convincing case that we do need to spend some more money, but I am also very optimistic he will come back, because I know him well and I know his intellectual capability and experience in being Secretary of Defense before, he will not come back with an add-so program, he will come back with a program that is a combination of new money and the redirection of monies that are currently being spent.

So I think what you will see for defense will be responsible, but it will not be adding on to what we have already done.

Mr. DAVIS. Mr. Secretary, as we get closer to dealing seriously with this tax cut, if it appears there is a risk that defense spending will increase substantially, wouldn't it be wise for us to determine what those figures are before we had a full debate on the magnitude of the tax cut?

Secretary O'NEILL. Well, you know, I can't imagine it impinging on this issue. Right now, if I understood you, the bill that is moving through the House process right now is $900 billion, still an amazing amount of money to me; $900 billion, nevertheless is less than a fifth of what I think we have all agreed is a likely surplus of $5.6 trillion. So if I were you, I would not be too fearful of $900 billion being given back to the American people in a way that creates a more progressive tax system with emphasis on low- and moderate-income taxpayers that leaves a higher portion of the population paying more. Yes, you may want to do a whole lot more for subsequent tax bills, but I would certainly not have any fear for doing the right thing about the most important priority and doing it in a timely way right now. I would have no fear at all.

Mr. DAVIS. Mr. Secretary, what should be our top priority, tax cuts or paying down the debt, if you had to choose between the two?

Secretary O'NEILL. I don't think we have to make a choice at all. I think we can do both, and I think we have demonstrated how to do it and we are ready to do it.

Mr. DAVIS. But if the surplus projections should change; if Congress should not do an appropriate job in its spending habits which, by the way, it has failed to do in the last 3 years, even when the Republicans control the House and Senate, and they generally tend to do a better job than Democrats, if those do occur and we do have to choose, what should be our top priority, paying down the debt or a large tax cut?

Secretary O'NEILL. Well, again, let me say, if you take the tax number that you have given me of $900 and you add to it the amount of debt that we are rationally going to be able to defer over the next 10 years, it is about 50 percent of what everyone would stipulate is a likely flow of surpluses, I don't think you have to make a choice when you have a 50 percent free ride or free board to take care of contingencies and appetite for spending and all the rest of that, so I don't think there is a choice to make.

Mr. DAVIS. Thank you.

Thank you, Mr. Chairman.

Chairman NUSSLE. Mr. Watkins.

Mr. WATKINS. Thank you, Mr. Chairman, and members of the committee.

Mr. Secretary, it is good to see you again.

Secretary O'NEILL. Thank you.

Mr. WATKINS. Mr. Secretary, I come to Congress from the private sector, having met payrolls and trying to invest back into the community and trying to create private sector jobs. So I come to this Congress with a mission. I don't look at politics as being the end of itself, I look at politics as being the vehicle of trying to do some things, and my overall purpose is to try to build private sector jobs in the economic depressed rural areas of this Nation. I think our answer is the private sector.

I was listening to some questions a while ago, and one of the things we can be thankful for, I think in relationship to the overall growth in our GDP, the growth of government, is a little less, and I think that has put it in the perspective of what we need to keep our eye on compared to what the overall growth of our GDP may be.

Mr. Secretary, I think you are a policymaker, a problem-solver in seeking as a policymaker to solve a lot of problems we might have. And I agree we have some uncharted courses out there and some of them I think are really great and others of them I am kind of wondering where that uncharted direction may be going.

First, uncharted surpluses, that is a wonderful problem to have. That is a great one. We can buy down our debt all we can without having to pay a penalty, and I understand that it is just like trying to pay off a home. You don't want to pay off a home if you have to pay too huge a debt or a penalty to pay the last part of that mortgage off. So I think we can handle that one. We should be able to not screw that one up, hopefully.

Then too I have a concern, and I noticed that Mr. Greenspan didn't know exactly also the uncharted waters of the huge trade deficits we have. I know when I became very interested in trade 20 years ago, we had about a 65- to $70 billion trade imbalance, and today it is a $375 billion trade imbalance, and the way that money is being utilized in those areas with the trading balances can definitely affect the future of this area.

Another area, though, I think of great concern I have, is we are in a recession in rural America, in the small town, rural America, and it seems like we have no one who is willing to champion the cause of saying that it would be best for America for us to sustain and maintain a strong economic base in that area. When I talk about rural America, rural America is agriculture, but it is more than agriculture. I have two degrees in agriculture. I have a love for agriculture. I am an old former State president of the Future Farmers of America and president in agriculture school, so I don't back up to anyone about agriculture.

But we cannot save rural America with just agriculture jobs. We have to have off-farm jobs because things have changed, and we have not only a recession, but we have a revolution that is taking place out there and the sustaining or being able to have a strong common rural America is in question, whether we can pull that together.

Now, where am I going with that? In my area, I had to leave it as a youngster 3 times before I was 10 years of age with my parents to go to large cities to find a job. It made a burning imprint on my life. That is why I am devoted totally in my public life to try to change those economic conditions.

In my district, most of my district is less than 40 percent of the national average, per capita income; not from the top, the national average, and when you get into the native Americans and others, it is even worse. But it seems like nowhere are we willing to address that. Nowhere. I keep sounding, it seems like a lonely voice that doesn't ever get heard, and I feel like it is totally ignored.

That is why I am kind of—I believe in you. I believe you are a policymaker that can solve problems and we need too concentrate on how we can let some of this great economic growth over the years, the high-tech industry, be directed toward the rural areas of this country. I have talked to a lot of those companies. I don't have a fortune 500 headquarters in my district. I have 22 counties throughout over one-third of the State of Oklahoma, and I don't have a Fortune 500 headquartered there. I have some warehouses that have some timber in my area, but it is way out in Oregon, as you know. I don't have an Alcoa Aluminum, but I would love to have one in my area.

I heard all of these companies that talk about layoffs. I don't have any major companies that can lay off. Because our out-migration over the last 20 to 40 years has been tremendous. When I was State FFA President back a number of years ago, about 35 years ago, 16 percent of us were in the production of agriculture. Today there is only 1½ percent of us in the production of agriculture, and that has not been addressed. In fact, I want to ask you to look at that with me, because we have to try to say, how do we resolve that problem in small town rural America and also, how do we solve the trade problem, which is a major problem also.

Farmers who 70 years of age, 65, 70 years, they find themselves with their backs to the wall, they are locked in because they have had to farm with the inflationary value of their land they owe there. At the same time they cannot sell because they have capital gains and they cannot pay off their note, so they are locked, and many of them are having some real stressful situations develop because of that, and many of the situations are with native Americans.

I guess what I want to ask you is what are you willing to do about trying to help us solve these and not leave that a void in that overall budget for the economic growth of the small towns and rural areas, and also the trade situation on how we are going to be able to—I know those are two broad kind of statements, but I think I might as well pitch it out to you and let you worry about it with me. I need somebody to worry about it with me.

Secretary O'NEILL. I look forward to working with you on this development problem. In the time I have spent wandering around the world, including where my family came from and where my wife's family came from, I know about rural America and about what it is like to be a farmer. There is a saying that you know well: farmers live poor and die rich, and it is not a bad characterization of what it is really like out there.

It is amazing to me what is going on. I was out not too long ago and spent a morning riding on the newest of modern combines and watched the computer up in the corner of the cab telling my relative, the owner, what the moisture content was and making a computer map so that when the mapping happened in the spring, the computer would know where to put down extra fertilizer in order to get a higher yield. It is just staggering on the one hand to see that, and then to see people in the part of the rural world you are talking about and living there who just are—just scratching out an existence in little towns.

I would give you a piece of advice. You mentioned you don't have any Fortune 500 headquarters. You don't really want one of those. The troublemakers are all in headquarters and they get fired all the time. What you really want is a plant that makes things for people that other people want to buy.

Mr. WATKINS. If you will just send me one of those, I will gladly make sure that—let me share with you, and I think my Chairman here agrees with this statement, 100 percent because he has a rural background. You know, we know how to produce. I spoke the other day and gave a talk, they wanted me to name a topic and I called it American agriculture, changing from the PTO to the WTO. PTO, being a pilot takeoff on a tractor, is likely to get bigger and bigger and all the modern things. The WTO—we have to be able to sell it.

Secretary O'NEILL. I agree with you.

Mr. WATKINS. That is what we have to talk about, because our trade people have sold us down the drain. I talked to Bob Zellick about this for an hour and a half. We locked in with a peace clause in the Uruguay Rounds, $7 billion of export trade assistance for the European Union. We have less than $200 million and what we don't use, they will. We sold our farmers out. We did. You know? And we have to try to be stronger about that along the way.

Secretary O'NEILL. We are going to work with you on these trade issues.

Chairman NUSSLE. The gentleman's time has expired. I hesitate to interrupt you when you are making the kind of passioned plea for farmers that you are making, but I need to interrupt you because we need to move.

Mr. WATKINS. I appreciate you letting me get it off my chest. Thank you.

Chairman NUSSLE. Thank you. Mrs. McCarthy.

Mrs. MCCARTHY. Thank you, Mr. Chairman.

Now, Secretary O'Neill, you know why this will not be done by the end of May.

Secretary O'NEILL. I believe in working into the night. You are very patient, by the way.

Mrs. MCCARTHY. But, I mean, here is where we all come together on this. Number one, I think everybody should know, there is going to be a tax cut and there will be a tax cut, because I think both sides of the aisle agree there should be a tax cut given back. The problem is as we go through all of our appropriations, what Mr. Watkins was saying for his farmers is absolutely true. We also know that we are going to have many laborers laid off in the garment industry, that will even go down more, so retraining has to come, and of course, money is well spent when we can put people to work, even though it is probably going to be in a different field, so we have to think about that.

But I am going somewhere else. I have spent my life as a nurse, so what I am concerned about, when you see all of this surplus and paying down the debt, I am looking 10 years down when my baby boomers are going to retire. I am looking at my senior citizens that live in the New York area, it would look like they have a good income. Unfortunately, because of State taxes, local taxes and everything else, they are hurting a little bit. They can't pay for their prescription drugs. And I guess if we go into different parts of this country, we are going to see that people would rather have those services given to them than having their amount of taxes returned to them.

I have to think that here on the Federal level, especially the last several years, they have done a good job on cutting back waste and fraud. Can we do better? Absolutely, and we can. But when we talk about saving, which I am saving rapidly now for my retirement, because I always worked as a nurse part-time, we never got a great salary, so now I am working like crazy and trying to put away as much money as possible, so whatever I have as a pension will also supplement my Social Security, and I encourage my staff to do that.

Here we have, paying down the debt, where are we going to go when our baby boomers retire? Our veterans are getting older, and we know the last 3 months of their life is the most expensive of their care, and we have promised to take care of them, and that is why when we talk about encouraging our young people to save, that is why I think here in the government, we should be taking a pretty good part of that surplus and saving it, because we are going to have a rainy day. Seven months ago we would not have even been talking about a slowdown. We don't know.

I would be more comfortable giving a heck of a lot of tax cuts now and having them come out in the first 5 years and then say hey, if we are doing a great job here, the next 5 years, let us give another tax cut, but we have to prepare for the future. We tell our kids, everyone here tells us, we have to save, we have to save for that rainy day, and that is what we are doing here. But really, Medicare is in trouble now, and it is. Our hospitals are on bare bones, and when our hospitals on our bare bones, are nurses are laid off. When our nurses are laid off, everyone down the whole line is, and no one even wants to go into the health care field any more.

So here we have our farmers that are hurting across this country, and they are; here we have elderly people that can't afford to take their drugs, and they can't; and we have to prepare for the future, baby boomers, our veterans; we have a lot to do here.

So the monies that we do spend here—and like I said, I am all for cutting back as much as we can, but we as a Nation work together. You know, I live on Long Island and people say to me, what do I care about agriculture? Well, you know why? I got some farmers out on the east end and I got farmers up in upstate New York that are hurting really bad, and we have to take care of our farmers.

Mr. WATKINS. If the gentlewoman will yield, every one of us eats about 3 meals a day, so we are involved in agriculture. We are eating, you know?

Mrs. MCCARTHY. I know, but we have to prepare for the future too. So this is where we are saying, we are going to have a tax cut, and we will, before this Congress is over, we are going to have a tax cut. Now, whether it is $1.6 billion, or Democrats are saying what, $900 billion? I know if you had asked me to say this 4½ years ago, I would go, we are not talking a heck of a lot in-between here for the programs that we want to help for the rest of the people. It is going to get done. It will. This is the beginning. This is a blueprint. It is a blueprint, and I am hoping that by the time we finish up, we will all be on the same page. Thank you, Mr. Secretary.

If you have any comments on that, I would love to hear it.

Secretary O'NEILL. I would just make one comment to you, and I look forward to working with you on your specialty area of health and medical care.

This is an area that I have spent 30 years working on, and in the last 5 years of leading a group in Southwestern Pennsylvania to demonstrate what I believe to be true, which is this: that if we properly organize the way we deliver health and medical care in our society, that we can reduce the cost by 50 percent, and I don't mean by cost-cutting, I don't mean by cost-cutting, I mean by doing things correctly the first time, which necessitates using some technology that is widely used in other businesses.

I will give you an example. I don't want to take too much time, but if I go to Rome and I get this card out of my wallet and I stick it into the ATM machine, you know what? They know who I am. They know how much money I have. They give me what I want and they make a deduction in my U.S. bank account with American dollars.

If you have a card like this and you go into a medical provider, a card that is supposed to be your medical access, almost inevitably, there may be some exceptions, but almost inevitably, after you give them your card, they give you a clipboard with 3 pages on it for you to fill out like they never saw you before, even if your sister works there, all right? I mean, at the very front end of medical care, we are still working as though we were in the 17th century.

I think I can demonstrate to you that we can improve the value equation for medical care 50 percent, and we need to get on with it, because if we would only do that, we would stop destroying the morale of the people in the medical sector who believe, because of what goes on here in Washington, that they are the targeted enemy of the people, because of what is going on and the way that they are thought about here in Washington, as a bunch of ne'erdo-wells. You don't think this about your own doctor or nurse, but the general impression that comes from Washington down to the provider community is, you think we are all out to gouge you, that we don't like people, we don't like patients, and we are going to do every trick we can to get more money out of the Federal Government.

I am sure you know this. Go talk to your doctors and nurses about what they feel about what the attitude is of the American government toward them as a professional class. It is a disaster. And it is part of the reason we are not getting the productivity improvements that we should.

Mrs. MCCARTHY. Well, I mean everything is on a computer. I mean any of us that have gone in for a checkup or an emergency treatment, everything is by computer.

Secretary O'NEILL. Do you own the records

Mrs. MCCARTHY. Do I own the records? I can get the records, yes.

Secretary O'NEILL. I know, but that is not the same as ownership. In a system that is designed around human beings with rights and responsibilities, you would own the record and you would have on that little card I showed you information that would hook you up to the Internet so that if you went to London for a conference and you got sick, you could put it into the machine and you could download for the provider in London all of your medical history, including drug allergies and a combination of things that you shouldn't have. You know, all of this stuff is available out there in the technological world, and none of it exists for the benefit of today of human beings as we live our lives. It is just an illustration of how much we can do.

I am sure you all must have seen the Institute of Medicine report. Accidentally, we are killing 100,000 people a year because of medication errors, and nosocomial infections, just to name a couple of obvious ones. This is all about how we can improve productivity in our society at a rate that we haven't even dreamed about in this important area of our life.

Mrs. MCCARTHY. I am sure everybody here would agree then, let us take the difference in our tax cut and just do it.

Secretary O'NEILL. Listen to me. Today we are spending $1.3 trillion on this important subject in our society. If we implemented what we know how to do, we could reduce the cost $650 billion a year, and if you look at the 10-year run-out of numbers for Medicare and Medicaid, a huge portion of the money that is going to come into Washington, with the assumption that we don't have any productivity improvements in health and medical care, it is going to go right there. We should not let that happen.

Mrs. MCCARTHY. Could we have a hearing on this in the future?

Chairman NUSSLE. It sounds like a good suggestion.

Mrs. MCCARTHY. Thank you, Mr. Chairman.

Chairman NUSSLE. I appreciate your time too.

Mr. Putnam.

Mr. PUTNAM. Thank you, Mr. Chairman.

I appreciate my colleague from the Ways and Means Committee's remarks about the FFA. I think I am still eligible to be a member.

Mr. Secretary, I appreciate you being here and I appreciate your endurance. I was fascinated by my colleague from Florida's remarks about the contingency funds, and coming from a State that does have rainy day funds that work very effectively, but it is a State that allows some of those funds to be deposited in private securities, and that is a different issue because it is a State and it is a drop in the bucket.

What vehicle would you anticipate the Federal Government using to hold the $1 trillion in rainy day reserve funds that the budget blueprint anticipates?

Secretary O'NEILL. Well, this is, in fact, an accumulation of funds over this 10-year period and, you know, with the debt buy-downs that we are doing, it really represents additional debt capacity that we have rather than funds that are in a mattress some place. So, you know, of the $5.6 trillion, when you look at the breakdowns of the pieces, you need to distinguish between debt capacity availability and money available. It is a complicated intersection, because these funds are going to flow in over the next 10-year period. But in effect, it represents buying capacity for things that we decide we want to do, including—you know, if we got to the other end of this tunnel in 10 years and we haven't spent any of those funds, it becomes the subject of another tax reduction, or more program spending if that is what you want to do with it.

Mr. PUTNAM. So you are saying that at no point will the revenues outpace our ability to buy back debt?

Secretary O'NEILL. Absolutely.

Mr. PUTNAM. OK. That clears a lot of it up.

What percent of Americans pay no Federal income tax?

Secretary O'NEILL. You mean legally or illegally?

Mr. PUTNAM. I just left the Marc Rich pardon hearing. Let us stick with the legal ones.

Secretary O'NEILL. Let me see. Do I have a number in my head? I honestly don't have a number in my head, but I would guess, let us see, 8 million to 10 million who are attached to the work force.

Mr. PUTNAM. And then what would that be assuming that there is this restructuring of the Tax Code?

Secretary O'NEILL. It is going to go up another 3 million or 4 million people with the restructuring that is proposed.

Mr. PUTNAM. What are the social implications of having a population of Americans that large who do not have a direct nexus to their civic responsibility as Americans? The assumption being that roads, bridges, tanks, schools are free, or that they come from something—some nebulous body called government, from a social perspective.

Secretary O'NEILL. You know, I am glad you followed this line of questioning, because it lets me now be on the other side and say, I think it is really imperative that people that are attached to the work force pay something, and that is what Social Security taxes are all about. It is an obligation as an adult member of the community to provide something for your own future, and I think it would be a disaster for us to turn Social Security into a "welfare program" and, in effect, relieve people of the responsibility as adults not to at least in part provide for their own future well-being with retirement funds.

Frankly, I would like to see us do it for medical insurance as well and insist that, you know, if you are an adult, able-bodied citizen of the United States, it seems to me if you have a job, this is important, if you have a job, you have an obligation not to become a ward of other people because you have decided to consume monies that legitimately should be put aside for your own future responsibility. It seems to me a fundamental notion of a successful democracy that people have responsibilities for themselves and to others.

So I think it makes perfectly good sense to expect people to pay Social Security taxes. It is quite OK with me if, on the other hand, we say, until you get to a certain level of income, you shouldn't have to pay income tax. And, to the degree we want to and can afford it to say to people, we are even going to give you a negative—earned income tax credit in a way is a negative income tax, and we are prepared to give you some additional resources because it costs hard money to live in our society.

That is all OK with me, but I don't think we should get confused about what are the responsibilities of adult citizenship in the United States. So I would maintain we must keep Social Security as a requirement that all adults pay into it, and to the degree that we want to counterbalance it with other social policies, that is OK.

Mr. PUTNAM. Thank you. I would just follow that up by saying that we all know that there is this perception out there that everybody has their own Social Security account already, that what they have paid in has their name on it, it is waiting on them when they retire. So I think that, you know, just to add to what you said, the impact of paying income taxes above and beyond Social Security is that it imposes that civic obligation that there is a greater need out there beyond yourself for national defense, for the common good, for the general welfare. And it is a little bit—I understand, of course, we have a progressive tax, and those people who are least able to afford it should pay the least, but I think that there is a potential destabilizing effect on society to have a burgeoning class of people who lose that nexus.

I see the yellow light and I will just stop right there. But thank you, Mr. Secretary, for coming.

Secretary O'NEILL. Thank you very much.

Chairman NUSSLE. Mr. Collins, you are going to get the last word here today, I think, or at least the last session of questioning.

Mr. COLLINS. Mr. Chairman, that is no different than it is at home.

Chairman NUSSLE. I doubt that.

Mr. COLLINS. I have the last word at my house, too. It is "yes, ma'am."

Mr. Secretary, you don't know how refreshing it is as a member who has been here 8 years, now into the 9th year, to hear someone say very candidly, I don't have the answer to that today, but I will get it. And also to say, you know, people have responsibilities. Very straightforward. I like that, and it is well needed.

It reminds me of what a friend of mine said to me about 3 weeks ago on one of my trips to Columbus, Georgia, and he is kind of in the circle of some of the movers and shakers in Columbus. He said, Mac, you know what people around here are saying about President Bush and his appointments to the cabinet? I said, well, I don't suppose I do. And he says, they are telling me that it is good to see the adults back in charge. I agree, it is, sir.

I like your answer on the trigger mechanism. I think it would be great to have a mechanism that would automatically give tax relief when you have a positive cash flow. I think our constituents would do more of what I saw in 1993 and that is to encourage the Congress not to spend. I know when I was speaking to a Rotary Club in Columbus as we were debating the 1993 tax bill, a gentleman walked up and he had a postcard, he walked up to the podium and handed it to me and three simple words on it, because I had been speaking about the tax bill. Those three simple words were: cut spending first.

We haven't been able to do that. We have had some success of slowing the growth down, but not much. We haven't had in the last 8 years a President who says, this is the number, this is the top number. Now, we can work the numbers below there, but this is the top number. If we would pass a number here, it would always come back and they would say, you are going to raise your number, that is not enough. So it is good to hear that the adults are back in charge.

But one of the reasons that you hear so much talk about a trigger, a trigger that would cease the tax relief some time in the future, depending on the cash flow, is that they are concerned about the cash flow of the government, the Treasury. Today it is positive. Even taking the entitlement, the trust funds and setting them aside, we have a positive cash flow. Sir, I don't like to use the word "surplus." It is a positive cash flow.

Secretary O'NEILL. Right.

Mr. COLLINS. Mr. Secretary, I am worried about the cash flow of the individual.

A report we were looking at earlier this morning in Ways and Means, for the month of January, we saw a 300,000 increase in the unemployed. What happened to their cash flow when they became unemployed? I would think it was probably disrupted considerably. They still have their obligations out there. I wonder what they are thinking? I would imagine that many of them are hoping that even though this first year, it will be minute tax relief, but it is that much. Someone broke it down today that for a single it would be a dollar a day. Well, in the economy, a dollar a day times 100 million is $100 million, and if you carry that out for 365 days, better than $30 some billion. That will be a stimulant to this economy.

When it comes to Social Security and Medicare, when I talk to the seniors in my district, and I tell them that—you know, Mr. Greenspan says the arithmetic won't work for these programs, and he is right, because when they were established, there were a number of workers for every beneficiary, and today it is 3.3 to every beneficiary. In thirty years it will be 2 to 1. Those numbers won't work.

We need to be very cognizant of the economy and the cash flow of people, particularly those people that say that we need a fair tax relief bill. You know, it is only fair if it helps those on the bottom end of the ladder. But those who are in the middle to upper middle and higher incomes, they are the ones that create the jobs that provide the cash flow of the economy. So it is fair to make sure that we treat all our taxpayers with fairness and with tax relief.

Sir, it is good to have you. It is refreshing to hear you answer questions and make comments and go beyond even the question with some of your own ideas. Keep it up, sir. It is welcomed.

Thank you, Mr. Chairman.

Chairman NUSSLE. Mr. Spratt.

Mr. SPRATT. Mr. Secretary, I am not going to try your patience, but I just need to get a few things clear for the Record.

Secretary O'NEILL. All right.

Mr. SPRATT. First there is an item in the budget blueprint, additional tax incentives, $123,000, and there is no description—$123 billion, but there is no description of what that is for. Could you identify that line?

Secretary O'NEILL. It is a long list of things which I would be happy to submit for the record.

Mr. SPRATT. I would appreciate that, sir.

Secretary O'NEILL. I am sorry, I am getting a little foggy.

Mr. SPRATT. I don't doubt it. I looked in the book and I don't find it.

Secretary O'NEILL. I will give you a list. It is a specific, discrete list of things.

Mr. SPRATT. Secondly, if you could get us the differences in the estimates between Treasury and Joint Tax Commission, that would be appreciated. And thirdly, it is my understanding that the revenue losses assigned to what the Ways and Means Committee passed today was $958 billion, and your estimate, or at least your revenue cost for that same—those same tax reductions was about $115 billion less than that, I am told.

Secretary O'NEILL. My—you know, I was in the Senate all morning and I have spent all afternoon here, as you know. My sense is what they have done in Ways and Means is that they provided for retroactivity and some acceleration, and I will get those numbers reconciled for you.

Mr. SPRATT. All right, thank you, for the record, if you would. Thank you very much.

Chairman NUSSLE. Mr. Secretary, thank you so much for being here today. We appreciate your answers, your candor, and we would love to have you back some time possibly to talk about health care or other subjects in the future.

One other thing. I would ask unanimous consent that all members have the opportunity to submit statements for the record for both of the hearings today and, without objection, so ordered.

With that, we are adjourned.

Secretary O'NEILL. Thank you all very much.

[Whereupon, at 5:45 p.m., the committee was adjourned.]

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