

owners are forced to liquidate the business to pay the death taxes. This occurrence is not rare; 70 percent of all businesses never make it past the first generation. 87 percent do not make it to the third generation, and only 1 percent make it to the fourth generation. One of the major reasons for this phenomenon appears to be the death tax.

A recent survey conducted by Prince & Associates demonstrated that 90 percent of successors to family-owned businesses that were forced to liquidate within 3 years of the original owner's death claiming that paying death taxes was one of the major culprits of the company's demise.

Now, when you stop and look at our individual communities, the backbone of our communities are not the national corporations, though we are fortunate if we have a plant there, or if they have businesses there, but the real strength of our communities are the local entrepreneurs, the local businesses, the local sawmill, the local hardware store, people who have lived their life there, who are vitally a part of that community.

Yes, one third of small business owners today will have to sell or liquidate part of their business to pay estate taxes. Half of those who liquidate to pay death taxes will have to eliminate 30 or more jobs. So if we want job growth, this is a tax that prohibits businesses from continuing the growth cycle they are on. Mr. Speaker, maybe they were a business that had two restaurants and were ready to go to number three, and one of the parents die, and suddenly they have to sell one of the restaurants to pay the death taxes.

They stop the growth cycle whenever they were going to go to restaurant number 4 or restaurant number 5, or they were going to add machine number 5 or machine number 6 that would have employed three more people, one more for each shift, and more people for the office and more people to truck the goods in and out.

It is a tax that makes no economic sense. It is also one that is not easy to collect. It costs considerable. It is 65 percent of the tax, 65 percent of the tax that is collected is costs of collection. That is not a very efficient tax. And when you want less of something, tax it heavily.

When you tax something 37 percent to 55 percent, you are going to have a whole lot less of it, and that is what we are doing to successful businesses in this country. We are taxing them 37 percent to 55 percent when they want to transfer that business from the parents at their death to the children. There is nothing right about that.

A study by George Mason University Professor Richard Wagner showed that eliminating the death tax would have a substantial impact on lowering the costs of capital and thus increase the health of the economy. Wagner found that within 8 years of eliminating the death tax, the gross domestic product would be \$80 billion larger than ex-

pected, resulting in the creation of 250,000 additional jobs and \$640 billion larger capital stock.

Ladies and gentlemen, cutting this tax will not lose revenue for this country. In the long run, it will be a stimulus to our country. It will help the small businesses who are competing with the large corporate entities of this world. The future lies with the Bill Gates' of the future who may start in their garage, who may start in a little warehouse someplace in the corner of it and start to grow a new business, providing new service, with a new concept, a new idea, and when suddenly that generation passes on, the next generation can continue.

Yes, even liberals support this. A University of Southern California Law Professor Edward McCaffrey, a self-described liberal, stated in testimony before the Senate Committee on Finance recently, the death tax discourages behavior that a liberal democratic society ought to like. It discourages work. It discourages savings. It discourages bequests, and it encourages behavior that such a society ought to suspect, the large scale consumption, leisure, giving of the very rich. It is a tax on working and savings without consumption. It is a tax on thrift, on long-term savings.

There is no reason, even a liberal populace supports it. The current gift and estate tax does not work. It is a deep tension with liberal ideals and lacks strong popular or political support; that is from a liberal.

Ladies and gentlemen, it is time for us to do away with the death tax. It will have a positive economic impact on the future growth of America. It will grow new jobs. It will inspire our economy to grow, and it is time we eliminate it.

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Mr. CRANE. Mr. Speaker, I thank my distinguished colleague for his remarks. In conclusion, I would simply like to pay tribute to our colleagues, the paytrewoman from Washington (Ms. DUNN) and the gentleman from Tennessee (Mr. TANNER) who are cosponsors of H.R. 8. It has had bipartisan cosponsorship from the outset, and I look forward to good, strong bipartisan support on Friday when we finally eliminate this obscene component of our Tax Code.

#### CONCERNS OVER SOCIAL SECURITY CHANGES PROPOSED BY GOVERNOR BUSH

The SPEAKER pro tempore. Under the Speaker's announced policy of January 6, 1999, the gentleman from New Jersey (Mr. PALLONE) is recognized for 60 minutes as the designee of the minority leader.

Mr. PALLONE. Mr. Speaker, this evening I would like to discuss my concerns over the changes in Social Security that have been proposed by Governor Bush of Texas.

Mr. Speaker, as we know, Social Security has lifted millions of seniors out of poverty. It is by far the most successful economic program ever passed by Congress, and the reason for its success is simple. It offers a guaranteed benefit for every American retiree. More than half of all Americans, especially working families, have no retirement savings beyond Social Security. Without the guaranteed income provided by Social Security, millions of seniors could fall through the cracks, left to live out their lives in poverty.

Recently, Governor Bush proposed a Social Security plan that would undermine Social Security, in my opinion, and simultaneously threaten our thriving economy. By diverting funds from the Social Security Trust Fund to set up individual retirement accounts, Bush's plan would hasten the insolvency of the Social Security Trust Fund and force seniors to question, rather than to count on, their Social Security benefits.

Now, Governor Bush has also proposed a tax cut that would cost an estimated \$1.7 billion. When combined with the cost of his individual retirement accounts, Governor Bush's plan would spend more than 3 times the projected surplus over the next 10 years. That money would come directly out of the Social Security Trust Fund, weakening the program even further, and leaving little room in the budget for other priorities like the prescription drug benefit under Medicare and investment in education.

In my opinion, Mr. Speaker, no plan that would endanger the guarantees of Social Security or rob the trust fund and leave other priorities unfunded can possibly be taken seriously, and that is why I think it is important, Mr. Speaker, that Democrats fight this dangerously ill-conceived proposal every step of the way. Myself and other Members on our side of the aisle will be here frequently over the next few weeks and the next few months speaking out against Governor Bush's proposal.

Mr. Speaker, I wanted to discuss some of the major problems that I see associated with replacing part of Social Security with individual accounts the way that Governor Bush has proposed, and I would like to just get into a little more detail about some of these problems this evening.

First, I would point out that individual accounts would mean massive cuts in Social Security benefits. Using a portion of the payroll tax to fund individual accounts would divert vitally important financial resources away from Social Security and would make Social Security's financial shortfall much worse. We know that we are eventually going to have a shortfall in Social Security and we have to find some way of shoring up the fund to make sure that the money is available. Well, what the Bush individual accounts plan does is to basically make the financing shortfall even worse.

For instance, redirecting 2 percentage points of the current payroll tax

into individual accounts without other program changes would more than double Social Security's currently projected long-range deficit of 1.89 percent of taxable payroll. To make up for this lost payroll tax revenue, individual account plans would also have to impose dramatic cuts in Social Security benefits. One such plan introduced in the 105th Congress would have reduced Social Security benefits by one-third for an average wage worker retiring in 2025. I want to repeat that. It would reduce Social Security benefits by one-third for an average wage worker retiring in 2025. This is why I say that Bush's plan is so radical, because rather than having a guaranteed level of money that would come to you, a guaranteed income that would come to you, you could likely see a one-third cut in that income that you are expecting.

Now, some claim that Governor Bush could avoid cutting Social Security benefits by relying on anticipated budget surpluses to finance individual accounts. We know that there is going to be a significant and ever-growing surplus, assuming the economy continues to be good. But the problem is that Governor Bush has already made commitments during his campaign for President that would preclude the use of budget surpluses for that purpose.

First, he has offered a variety of tax proposals that, all told, would cost roughly \$1.7 trillion from the years 2002 through 2010; \$800 billion in excess of projected non-Social Security surpluses over the same period. So the money is simply not there from the surplus to shore up Social Security or to pay for these individual accounts because he has already said that he wants to use it for these tax cuts, primarily for wealthy individuals and corporations.

Also, Governor Bush has pledged to protect future Social Security surpluses by placing them in a lockbox, thus neither surpluses from Social Security nor outside of the program would be available to finance individual accounts if Governor Bush intends to keep his other campaign promises.

Mr. Speaker, it just does not add up. On the one hand, Governor Bush proposes taking a percentage of the trust fund and using it for individual savings accounts; there is no money to pay for that, and it would actually force us to have less benefits for recipients in the future. On the other hand, he cannot use the surplus to make up for that because he already has this huge tax plan that would use up most of the surplus.

Now, the next problem I would like to discuss, Mr. Speaker, is that individual accounts would force Americans to bear greater risk. Social Security protects against a host of risks: the risk of death or disability, the risk of low lifetime earnings, the risk of unexpectedly long life, the risk of inflation. Now, individual accounts would undermine these protections and would add the uncertainty of market risk to the program. Advocates of individual ac-

counts argue that since fluctuations in the stock market average out over time, that individual investment risk is negligible. Well, I do not think that is true at all. I think it is highly risky and a lot of people do not realize what the risk is.

Averages, essentially, are misleading. For every person whose investments perform above average, there is another person counting on Social Security whose investments perform below average with the stock market. Averages also ignore timing and the millions of Americans who might retire during a downturn in the stock market. Now, just to give some examples, and I use an example from the Congressional Budget Office. There were 15 years in the past century, 1908 through 1912; 1937 through 1939; 1965 through 1966; 1968 through 1973, in which the real value of the stock market fell by more than 40 percent over the preceding decade. Moreover, if we look at the AARP's Center for Retirement Research, they point out that between January 1973 and September of 1976, the stock market declined by 43 percent and did not return to its 1972 high for almost 10 years. And then, just as another source of data on this problem, the General Accounting Office observes that over the past 70 years or so, stock returns were negative in nearly one out of 4 years. So anyone who tells us that this is not a risky venture, that this investment does not pose potential problems for the money that one invests in these individual accounts, is simply not looking at the historical record.

Another major problem I would like to mention this evening, Mr. Speaker, is that individual accounts would be expensive to administer. The governor does not say how he is administering or where the money is coming from to pay for administering these individual accounts. When he announced his Social Security principles, Governor Bush failed to specify the structure or the institutions he would create to oversee individual accounts. This should come as no surprise, since the administration of such accounts would impose new and substantial burdens on employers, workers, and to the Federal Government. Even administrative charges that appear small at the outset add up over time. An annual fee of 1 percent of assets under management over the course of a 40-year career would absorb 20 percent of the worker's individual account. So once again, this all sounds very nice in theory, but in practice, the reality is that the money just is not there.

Mr. Speaker, another problem I would like to point out tonight is that individual accounts would cripple efforts to eliminate the national debt. This is such an important reason why Governor Bush's proposal should not be adopted, because we are now paying down the national debt for the first time in anyone's memory, and this is a significant factor in keeping the econ-

omy going and letting the economy grow. In the absence of benefit cuts, diverting a portion of the Social Security payroll tax into individual accounts would lead to significantly smaller Social Security surpluses and to the rapid depletion of the Social Security Trust Fund.

According to the Center on Budget and Policy Priorities, if the current payroll tax were reduced by 2 percentage points to fund individual accounts, which is what Governor Bush has proposed, and if the current payroll tax were reduced by 2 percentage points in that way, the assets in the Social Security Trust Funds would be exhausted in 2023, well before the currently expected date of 2037. Moreover, Social Security benefit payments would begin to exceed payroll tax revenue by 2005, a decade earlier than what is now projected. So again, the money is not there. If we start taking the money away from these individual accounts, Social Security is going to become insolvent a lot sooner.

Mr. Speaker, this has direct implications on the ability to pay down the national debt. Reduced Social Security surpluses and an earlier date of trust fund exhaustion necessarily implies less debt reduction. The Federal Government has been able to begin retiring decades of debt only because of large Social Security surpluses and fiscal discipline in the rest of the budget. Less debt reduction necessarily implies higher interest costs and using payroll taxes to fund individual accounts would mean that billions of dollars would be used for interest payments on the debt, rather than for critical investments in our Nation's future.

Now, the President, President Clinton has suggested a plan that would dedicate all projected Social Security surpluses to debt reduction. The President's plan would not only extend Social Security solvency until 2054, but it would also eliminate the debt held by the public by 2013. The combination of Governor Bush's tax proposal and his Social Security principles would make it impossible to eliminate the publicly-held debt that quickly.

When I talk to my constituents, they all tell me the same thing. They want to make sure that Social Security is there for them when they retire. Well, if we implement Governor Bush's plan, it will not be there because the insolvency will occur even earlier, and, worse than that, we do not pay down the national debt, which I think is a major factor in our ability to keep the economy going and to continue growth in our economy.

Mr. Speaker, I would like to point this evening to an analysis that was done by the Social Security Network. The Social Security Network is a project of the Century Foundation. Basically, they did an analysis recently that evaluates the diversion of 2 percentage points of the current Social Security payroll tax into individual accounts. Now, Governor Bush has not

specified how large his proposed individual accounts would be, but the Bush campaign has used examples involving the 2 percentage points, and that is why I use that 2 percentage points, and that is why the Social Security network used the 2 percentage points in its analysis. But this analysis, and I should also say, before I get into this analysis a little more, that the calculations it uses, if anything, underestimate the cuts in Social Security benefits likely to occur under a Bush-like individual account plan.

But what this analysis by the Social Security network suggests is the following: first, if Social Security benefits were cut equally for all workers age 55 or younger in 2002, benefits would have to be cut by 41 percent to maintain the solvency of Social Security over the next 75 years.

□ 2200

So here again, their analysis shows we are going to have an even greater problem maintaining the solvency of social security.

To avoid a sharp reduction in retirement income for older workers that would result from this, benefit cuts could be phased in. Because less would be saved in early years, reductions for younger workers would have to be larger to ensure that social security remains solvent over the next 75 years.

For example, under one plausible phase-in approach, social security benefits would have to be reduced by 29 percent for those 50 years old in 2002, and by 54 percent for those 30 years old or younger. So what we are saying is if we do not do this all at once but we phase it in, then the consequence on younger workers is even greater in terms of the amount of benefits they are going to have when they retire.

Not only would the average benefits be cut relative to current law under the Bush proposal, but workers would also have to shoulder substantially increased risk under individual accounts. In other words, benefits might be smaller or larger than under current law.

Here again, the Social Security Network gives us some examples. If holders of individual accounts suffer from market returns as low as the worst 35-year period since World War II, the total benefit reduction, including the individual account income, for 30-year-old single average earners would be 38 percent rather than 28 percent. So depending on the market fluctuations, and if we use the period before World War II as an example, we could have as much as a 38 percent reduction in the benefits that we get.

Then the Social Security Network has another example. If, on the other hand, individual account holders enjoy market returns as good as the best of the 35 years since World War II, so now we are going in the opposite direction, instead of using the worst years prior to World War II we are using the best years after World War II, including now, the income for 30-year-old single average earners would be about the same as under current law.

So what are we gaining? What this is essentially saying in this analysis is if we use the best years since World War II, you would not gain anything. If we use the worst years prior to World War II, we could have as much as a 38 percent reduction. There is no benefit.

The problem is that everyone, that Governor Bush is relying on people's assumptions about the economy in the last 5 or 10 years, when things have been the best they have ever been. There is no guarantee that is going to continue over the life of the program before somebody who is younger retires, which could be 35, 40 years.

The conclusion is that Governor Bush's proposal could cut social security benefits by more than 50 percent for young workers, and the proceeds from the individual account would on average make up only a portion of that cut while exposing individuals to significant risk. This is from, as I said, the Social Security Network's analysis.

Mr. Speaker, I did not intend to take up a lot of time tonight because I intend to come back and keep talking about this on other occasions, but I just wanted to say in conclusion, Mr. Speaker, that the bottom line is that Governor Bush's social security proposal simply does not add up. Most of the surplus for tax cuts plus most of the surplus for a risky social security plan equals too much of the Federal budget. We cannot take the money from this tax plan and at the same time have a huge tax cut and end up with anything but less benefits for the average social security recipient.

If we take these two things together, his social security plan and the tax cut, we swallow up the surpluses whole for the next 10 years, and we use a significant portion of the social security surplus as well, so both the general revenue and the social security surplus would be used up.

Devoting all the surplus to these two plans, the Governor's social security plan and the tax cut plan, means leaving nothing at all for the rest of the budget. The combination would leave no room for other vital priorities like the Medicare prescription drug benefit or more funding for new teachers and modern classrooms.

In addition to the fact that it does not add up for the recipient, who would probably end up with cuts in their benefits, it also means that money is not going to be available to expand Medicare, which I think, Mr. Speaker, we know that many of our constituents, most of our constituents, are saying that they would like Medicare to be expanded to include prescription drugs.

There is no way we could do that if we adopted Bush's social security plan as well as his tax cut, because there would not be any money left over to do that, to help seniors with a program under Medicare that would pay for their prescription drugs.

Of course, that does not even take into account other priorities that affect the general population, like the need for more money for education to

go back to local schools so they can have smaller class sizes by hiring more teachers, or the need to pay for school construction and give money to the local schools so they can renovate school buildings and upgrade the infrastructure for the Internet, and those types of things.

Nothing would be left. This would just take up everything, and for no reason, for no actual benefit to the average senior citizen.

I just think that the Governor's proposal for social security is extremely radical. It does not add up. I just hope that over the next few months that we are able to expose this so the American people realize this, because it should not be enacted, and it certainly should not be the basis for any policy program by Governor Bush or anyone else.

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#### RECESS

The SPEAKER pro tempore (Mr. ISAKSON). Pursuant to clause 12 of rule I, the Chair declares the House in recess subject to the call of the Chair.

Accordingly (at 10 o'clock and 5 minutes p.m.), the House stood in recess subject to the call of the Chair.

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#### AFTER RECESS

The recess having expired, the House was called to order by the Speaker pro tempore (Mr. SESSIONS) at 11 o'clock and 57 minutes p.m.

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#### REPORT ON RESOLUTION PROVIDING FOR CONSIDERATION OF H.R. 4577, DEPARTMENTS OF LABOR, HEALTH AND HUMAN SERVICES, AND EDUCATION, AND RELATED AGENCIES APPROPRIATIONS ACT, 2001

Mr. REYNOLDS, from the Committee on Rules, submitted a privileged report (Rept. No. 106-657) on the resolution (H. Res. 518) providing for consideration of the bill (H.R. 4577) making appropriations for the Departments of Labor, Health and Human Services, and Education, and related agencies for the fiscal year ending September 30, 2001, and for other purposes, which was referred to the House Calendar and ordered to be printed.

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#### REPORT ON RESOLUTION PROVIDING FOR CONSIDERATION OF H.R. 8, DEATH TAX ELIMINATION ACT OF 2000

Mr. REYNOLDS, from the Committee on Rules, submitted a privileged report (Rept. No. 106-658) on the resolution (H. Res. 519) providing for consideration of the bill (H.R. 8) to amend the Internal Revenue Code of 1986 to phase out the estate and gift taxes over a 10-year period, which was referred to the House Calendar and ordered to be printed.