Democratic Policy Committee Hearing

"The President's Budget Request for Fiscal Year 2004"

February 7, 2003

SEN. DORGAN: Good morning, we will call the hearing to order. This is a hearing of the Democratic Policy Committee. I am joined today by the Democratic Leader of the U.S. House, Congresswoman Pelosi, the Democratic Leader of the Senate, Senator Daschle, the ranking member on the Senate Budget Committee, Senator Conrad, and we will be joined by other colleagues as well. I appreciate very much those who have agreed to be with us today to talk about the budget. A budget, any kind of budget, always reflects priorities and choices. This is true of a family budget, this is true of a business budget, and it's certainly true of the budget of the Federal Government. The President submitted a budget this year. He submitted the budget this past week following his State of the Union Address. And he makes certain kind of choices, and we will talk about those choices today with respect to his priorities. And also we will hear from others about priorities that might be alternative priorities and how we proceed, and there will be, I assume, ample time for discussion. I'm going to cut my opening remarks short. I will make some opening remarks before I introduce the first panel. But in the interest of time, I will ask for comments from my colleagues; and let me turn first to the Democratic Leader of the Senate, Senator Daschle. Senator Daschle, thank you for being here today.

SEN. DASCHLE: Well, Senator Dorgan, thank you very much for holding this important hearing. I think, as we begin the deliberations on the budget, it is critical that everyone understand its implications, and that we have a full hearing of analysis of this document, and what it may mean for our country and for our government. This is the condensed version of the budget, a much smaller one, but I think it's appropriate that as they refer to many of their graphs inside, they use red ink. And indeed, this is what they should be using; they don't use enough of it. But this budget represents a dramatic departure from past practice and past budgeting, perhaps the single biggest swing representing red ink that we've seen in our lifetimes. When the president came to office two years ago, our country was projecting a 5.5 trillion dollar surplus, but because of this budget, we now expect, over the course of the next ten years, to add to the already growing debt by two trillion dollars. So we will have experienced a 7.8 trillion dollar budgetary swing in two years as a result of the decisions made by this administration.

I don't know that there is any other word for this budget than the word reckless. It is reckless in fiscal policy, it is reckless in its repercussions and ramifications for our country's well-being, and it creates, in my view, the single biggest credibility gap that this administration has faced in the twenty-four months that it has been in office – a credibility gap that goes to the President's public recognition of the importance of education. But when you look at this budget, you realize that it's 3.5 billion dollars below where the Senate was in education commitment and investment just last month. The President says that he's for prescription drug benefits, and yet in this budget, he's telling senior citizens in order to get those prescription drug benefits, you're going to have to join an HMO. The President claims to be in favor of highways, and yet there is a deep cut, about an eleven percent cut, in highway construction in this budget. So there is a huge credibility gap that the president is going to have to address, that we as members of Congress will certainly want to discuss and hopefully close as we consider the repercussions of this document.

We are facing some very uncertain times. We don't know whether we will be involved in war within the next few weeks or not. But there is nothing in this document that prepares this country, fiscally, for war. There is nothing in this document that recognizes the importance of strengthening the economy with an economic stimulus plan that doesn't provide huge handouts to those at the very top at the expense of everyone else. So, Mr. Chairman, this is a budget that needs a lot of work, and I really do appreciate your willingness to hold this hearing, to bring witnesses before the committee who can share their thoughts and express themselves with regard to their views. But I believe this may be one of the most important debates we've ever had about budget priorities and about the consequences of this budget. And I look forward to the discussion this morning.

SEN. DORGAN: Senator Daschle, thank you very much. We have also been joined by Congressman Spratt and Congressman Van Hollen, we welcome you. Let me next call on the Leader of the Democrats in the U.S. House, Representative Pelosi.

REP. PELOSI: Thank you very much Mr. Chairman, thank you for calling this very, very important hearing at this critical time. I wish to associate myself with the remarks of the distinguished Democratic Leader in the Senate, Senator Daschle, and I will reinforce some of the comments that he has made and make some other comments. But first, I want to give a special welcome to our former colleague, Congresswoman Barbara Kennelly. A long distinguished career in the House of Representatives is one that we are all very proud of, and look forward to her remarks today as well as those of the other distinguished witnesses before us and on panels to come. I am pleased that we're joined by our distinguished ranking member of the Budget committee, a person who knows more about the budget than the President would like him to, Congressman John Spratt, also in the Leadership as Assistant to the Minority Leader, and one of our newest members of Congress, Representative Chris Van Hollen from Maryland, who brings a fresh approach, but he's effective from the start, out of the legislature in Maryland, in evaluating budgets.

The budget of our country should be a statement of our national values. What is important to us as a country should be reflected in the budget in terms of the allocation of resources. Sadly, that is not the case with the President's budget. I'd like to think that there wasn't the credibility gap that Senator Daschle talked about. He and I both talked about the credibility gap before the State of the Union address, and we said, hoping not to be right, that there will be a credibility gap between the rhetoric that you will hear in the State of the Union address and the reality that will be in the President's budget. The President likes to talk about issues that are important to working families, prescription drug coverage for seniors, educating our children, access to quality healthcare, protecting the environment and securing our homeland. Yet time and time again, his actions failed to live up to his rhetoric, and no place is that more concretely demonstrated than in the budget.

The figures speak for themselves. The budget that was proposed by the administration this week is a perfect example of the widening credibility gap between rhetoric and reality. President

Bush's budget fails to fund the important priorities and values that he so eloquently spoke of in his State of the Union address just weeks before. This budget makes the President's priorities clear. In order to make room for a 1.3 trillion dollar tax cut, when you include the interest, his budget shortchanges the very things he trumpeted in the State of the Union address. The centerpiece of those tax cuts is his so-called economic stimulus proposal that will give most Americans two dollars a week and most millionaires nearly two thousand per week. That is not a reflection of American values of fairness, opportunity and security. The Bush budget creates deficits of over 300 billion dollars this year and next, spends the entire Social Security and Medicare surpluses, and adds 2.1 trillion dollars to our national debt, leaving enormous budget problems for our children and threatening the retirement security of their parents and grandparents just as the baby boom generation is retiring.

We should be investing in our children; instead we are indebting our children long into the future with this deficit and debt. The budget falls nine billion dollars short of the amount promised for 2004 in the No Child Left Behind Act. How can that be? The bulk of that shortfall, six billion dollars, hits Title I, the initiative that provides additional resources to high poverty schools. This administration has already labeled more than eight thousand high poverty schools as failing, but denies the funding promised to turn those schools around. The Bush budget fails to provide anything for struggling states, fails to create jobs, fails to fund vulnerabilities in homeland security, and weakens Medicare by forcing seniors into private plans to obtain drug coverage.

Yes, the President's Medicare plan is a bad choice. You can either have your choice of physician, or you can choose to have prescription drugs, but you can't have both. As far as the homeland security is concerned, this budget falls four billion dollars short of what nonpartisan experts on the subject say would be needed to protect the American people. The list goes on and on. Rising unemployment, growing deficits and the threat of terrorism have made these times uncertain. The American people expect leadership. Instead the administration is offering empty promises and tax breaks that benefit largely the wealthy. We want tax breaks for all Americans, we want to reward success, we want the wealthy to enjoy tax breaks too, but not in such a disproportionate way that undermines any sense of fairness. We must do better. So again, I thank you Chairman Dorgan, and thank all of our witnesses for sharing their experience and expertise and look forward to their testimony.

SEN. DORGAN: Leader Pelosi, thank you very much. Next we will hear from the ranking member on the Senate Budget Committee, Senator Conrad.

SEN. CONRAD: Thank you Mr. Chairman. Thank you very much for holding this hearing. I think this is a critical moment in our nation's history. I think future generations will look back on this time and wonder what were we thinking about as we made these budget choices.

I believe the President's proposal is reckless and dangerous in a way that we have never seen before. I say that because we have a fundamental difference. Although this economic game plan is much like the game plan of the 1980's, there is a fundamental difference. And that difference is the baby boom generation. We're about to see something we've never seen before.

And I think to judge the direction that we're on, it's useful to look back. Let's go back, if we can, to what the President told us two years ago when he was proposing a massive tax cut. He said, "Tax relief is central to my plan to encourage economic growth, and we can proceed with tax relief without fear of budget deficits, even if the economy softens."

That was his statement then. This is the result now. We were told we would have 5.6 trillion dollars in surpluses over the next decade. We now know that if the President's policies are adopted – his policies for spending and tax cuts - instead of 5.6 trillion dollars of surpluses, we'll have 2.1 trillion dollars of additional deficits and debt. That is a swing of over 7.7 trillion dollars in just two years – unprecedented in our nation's history. Let me just say if that number were rounded, it would be a 7.8 trillion dollar negative swing in just two years.

The President last year then did a mid-course correction and said, "Our budget will run a deficit that will be small and short-term."

Wrong again. It is not small and it is not short term. It's deep and it's long-term. This chart shows the explosion of deficits under the President's policies. And you can see that if Social Security is not used to pay for the tax cuts, we will be running budget deficits of over 400 billion dollars a year every year for the entire rest of this decade.

If you wonder if debts matter, I refer you back to the President two years ago. This is what he said then: "My budget pays down a record amount of national debt. We will pay off $2 trillion of debt over the next decade. That will be the largest debt reduction of any country ever. Future generations shouldn't be forced to pay back money that we have borrowed."

These are the President's words: "Future generations shouldn't be forced to pay back money that we have borrowed. We owe this kind of responsibility to our children and grandchildren."

That's what the President said. This is what the President is doing. He is exploding the national debt. We are at 6.2 trillion dollars in gross debt last year, increasing just by 2008 to 9.4 trillion. That is doing precisely what the President pledged not to do. It is pushing this deficit and debt off on to our children and grandchildren.

Now this has real consequences. The respected Macroeconomic Advisers, who by the way are under contract to the White House and to the Congressional Budget Office to analyze these plans, tells us that the President's growth plan doesn't grow the economy – it actually retards economic growth. Oh, in fairness, it gives you a little bit of growth until 2004. You can see that's the policy line, the black line is following the President's policy. The base is the green line. It shows what happens if you do nothing.

Very interesting analysis by Macroeconomic Advisers. What it shows is it peaks, you have a little bump up to 2004, which of course is a presidential election year, and then the President's plan reduces economic growth substantially in comparison to doing nothing. In other words, the President's plan hurts economic growth. Let's put up the final slide. The reason for that is under the President's policies, not only are we in deficit the whole rest of this decade, we never escape from deficit.

This is a chart from his own budget plan, page 43. I don't think they wanted many people to look at this chart. This chart shows the next decade deficits that are, as I've indicated, more than 400 billion dollars a year if Social Security is not counted. Of course, they want to use Social Security to pay for these tax cuts. Over 2 trillion dollars of Social Security money used in just the next decade. But then look what happens.

When the baby boomers start to retire it is a plunge off the cliff. And the President's plan is straight ahead. Make no doubt. This is a fiscal disaster for this country, and the result can only be massive cuts in benefits in Social Security and Medicare. That can only be the conclusion they have reached because none of this adds up. It doesn't come close to adding up. It is a plunge into the abyss. Thank you, Mr. Chairman.

SEN. DORGAN: Senator Conrad, thank you very much. Next we'll call Congressman Spratt, ranking member of the House Budget Committee.

REP. SPRATT: Thank you Mr. Chairman, and let me thank you all for calling these hearings. The more that we can do to make the people understand what's about to happen, I think the better. I echo the comments of my colleague, Senator Conrad: we are at the edge of a precipice right now.

One chart will show you right now why we're at such a critical juncture. That's this chart right here. These numbers all come from the OMB budget. We haven't fabricated any of them; we've taken them straight out of their budget. First, the April 2001 baseline surplus projection, the cumulative projection over 2002 to 2011. Two short years ago, the projection was a surplus of five trillion, 637 billion dollars. Now, OMB says, "Oops, we made a mistake, we overestimated the economy during that period of time." And what they call economic adjustments, which really include a lot of things that they really don't break out for, should but don't, their number, they now reduced the adjusted the projected surplus over that same time period down to 2 trillion, 463 billion dollars. That, my friends, is essentially the Social Security surplus. That amounts to saying we didn't really have a surplus looking back two years except for the surplus in Social Security. Nevertheless, over the last two years, with tax cuts and other legislative policy, they have committed 2 trillion 592 billion dollars of the 2 trillion 463 billion dollar projected surplus. They've already over-committed it, over-committed it by 129 billion dollars between '02 and '11.

Now if that were our problem, and that's where we are right now, per OMB's own projection, 129 billion dollars, we can live with that. We can work with that – that's not an overwhelming problem. But the administration proposes now to add, on top of knowledge that there is no surplus left – none in the general fund, none in the Social Security fund, none in Medicare. We are actually in deficit, so every dollar that they propose from here on goes straight to the bottom line as a dollar to the deficit. Knowing that, they add one trillion, 993 billion dollars in policies in this budget on top of a cumulative deficit over the next ten years of 129 billion.

That means we are willfully, wantonly, and intentionally adding two trillion, 122 billion dollars to the deficit. I told John Snow the other day, the Secretary of the Treasury, we're willing to be charitable and call the mistake made in 2001 a miscalculation. You thought you had 5.6 trillion dollars, we warned you that that was an inflated number, that you should at least have a reserve for the downside (*unintelligible*), but you went ahead and ignored that. We'll call that negligence. But you certainly can't call what you're doing now negligent. And as a lawyer would know, because you make a distinction between negligence and willful, wanton and intentional action, this is willful, wanton, and intentional. If we proceed with their budget, we do so knowing these are the consequences, 2.1 trillion dollars in additional debt between now and '11, and who knows how much then on. Thank you Mr. Chairman, that's why this hearing is so important.

SEN. DORGAN: Congressman Spratt, thank you very much. Congressman Van Hollen.

REP. Van HOLLEN: Thank you Mr. Chairman, and I want to thank the Democratic Leaders in both houses for bringing this together, and the Budget Committee ranking member. It's a great privilege to be here, as a new member, and it was a great privilege to attend the State of the Union Address, for the first time not watching it on television, but on the floor of the House of Representatives. And I must say, as the President got to the very first page of his speech, he made the following statement: "We will not pass along our problems to other Congresses, other Presidents, and other generations." And being there for the first time, I almost fell out of my chair when I heard that statement because we know that his budget does just the opposite. It does pass along to other Congresses, and other presidents, and other generations, the responsibilities that we should be dealing with here today and the obligations that we as a Congress should be addressing today. You've seen the charts – this budget takes us into an era of record rivers of red ink, and the choices are clear. Yet something has to give and the American people know you can't get something for nothing, and the result is going to be dramatic cutbacks in Social Security or Medicare.

I mean, this is a guided missile at Social Security and Medicare. The only other alternative in the future is huge revenue increases. And you can be sure in the future when they propose huge revenue increases, they're going to be asking most of the American people to pay those revenue increases, not the very wealthy. So what we see here is, with this particular tax cut and the way it's structured, a huge transfer to the people who need help the least and a raid on Social Security. I mean the cuts in Social Security and Medicare down the road are going to come at the benefit of people in this country who need help the least. I think it's a bad budget, I think it's an irresponsible budget. I thank you very much for the opportunity to be here.

SEN. DORGAN: Congressman Van Hollen, thank you very much. Let me make one final point, and then I'm going to call on our first panel. One hundred years from now, none of us will be here. We'll all be gone from the face of this Earth. But historians can evaluate something about who we were, what we thought was important, and what our value systems were by taking a look at what, as a country, we decided to invest our money in. What did the President propose as a budget back in the year 2003? What did Congress decide was important? What were their set of choices?

This is about values. The President says, at this moment, that our choice should be to provide more and more tax cuts, most of which goes to the affluent in America. Our choice does not include putting at the top of the list education. It does not include putting at the top of the list health care, law enforcement, renewable energy, highways, infrastructure. The President says in his budget, my choice, our choice, our value system for our country, is to put at the top of the list, tax cuts for the most affluent Americans – on top of those tax cuts for the most affluent Americans that were developed and recommended a year and a half ago by the President.

We must make good choices if we're going to have a good future in this country. We haven't arrived at this spot, this wonderful spot for America in 2003 by accident. It's because good people made great choices about what to do to invest in our country's future. They decided long ago in universal education, that every kid, every kid in this country should be able to become what their God-given talents would allow them to become, so we invested in education. It's our value system, and this debate is about American values, make no mistake, and there will be very substantial and sharp disagreements, and there should be. That's what public debate is about.

And so, we call this hearing to evaluate what are the President's recommendations: what about them, what do they mean for the future of this country, what are alternative recommendations that could change and alter the future of this country in a good way. And so we are pleased to invite witnesses today. I must say that a couple of witnesses called, scared away by a miniscule amount of snow that has fallen on the East Coast. Those of us from the Dakotas were here, after milking eighty or ninety cows, at seven in the morning ready for breakfast. But there are some who are apparently still at home, waiting in bed, watching television, worried about this small amount of snow that has fallen. But that does not include Bruce Bartlett, or Mr. Greenstein, or Barbara Kennelly. Felix Rohatyn is actually from New York, so he wasn't able to travel down this morning. But we appreciate the counsel he has given us and the appearances he has made previously, and again, we will have him appear before us at some point in time.

Let me describe our first panel. Mr. Greenstein is a well-known figure talking about budget and economic issues. Robert Greenstein is a founder and executive director of the Center on Budget and Policy Priorities, which focuses on the federal budget and, more specifically, the impact of tax and budget proposals on low-income people. He has written many reports, analysis, op-ed pieces, articles on many, many issues. He appears on national television public affairs programs. He was awarded the MacArthur Fellowship in 1996. In 1994, he was appointed by the President to serve on a bipartisan commission on entitlement and tax reform. Prior to the founding of the Center, he was Administrator of Food and Nutrition Service at the U.S. Department of Agriculture.

I'm going to introduce all three, then I'm going to call on you sequentially. Bruce Bartlett is also on our first panel. Bruce Bartlett is a senior fellow at the National Center for Policy Analysis. He's published more than 1,000 articles in national publications including the Wall Street Journal, the New York Times, the Washington Post, and many, many more. He has a twice-weekly column on economic policy published in the Washington Times, the New York Post, and the Detroit News. He's a nationally syndicated writer with the Creative Syndicate. He has written for academic journals, published four books, including *Reagonomics: Supply Side Economics in Action*. He was the deputy assistant secretary for economic policy at the Treasury Department, a senior policy analyst in the office of policy development at the White House, and a senior fellow at the Heritage Foundation.

Finally, Barbara Kennelly, a former colleague of ours, president and CEO of the National Committee to Preserve Social Security and Medicare. Barbara Kennelly spent twenty-three years in elected office at local, state and federal levels. She was a colleague of ours here in the U.S. Congress, serving on the Ways and Means Committee seventeen years in the U.S. House. She was the ranking member on the House Ways and Means Committee Subcommittee on Social Security, and the first woman to serve as chief majority whip on the U.S. House Committee on Intelligence. I want to thank all three of you for coming this morning, and I was kidding, there was actually more than a minute amount of snow here, so we appreciate your effort to be with us. And let me ask Mr. Greenstein for you to proceed, then we'll hear from Mr. Bruce Bartlett, and then Barbara Kennelly.

MR. GREENSTEIN: Thank you very much, Senator. As you know, if you look at the President's budget, it shows that his tax proposals would have a 1.5 trillion dollar impact on the budget over the next 10 years, just from their direct effects. But that does not include the impact on higher interest payments on the debt; the debt would be higher because of all the revenue we'd lose. When you add in the interest payments, the impact is about 1.8 trillion. But that doesn't tell us the full story, either, because of what you almost might call the gimmick, in the budget, regarding the Alternative Minimum Tax. Now, as most of you know, the number of people subject to that tax is about 2 million today, and if we don't do anything, it'll be 40 million by the end of the decade. The president proposes a remedy, through 2005 only, because he doesn't want to print in the budget for all of you to see, how much money it would cost to do the remedy through the full decade. The Treasury has said it would come back in 2005 and propose the change for the rest of the decade. Well, if you simply take what he proposed through 2005, and you extend it, that's another $700 billion, and now it's up to 2.5 trillion. That does not include the cost of the tax cut enacted in 2001. When you add that in, the total cost of the White House tax agenda, there's a 4.4 trillion dollar impact on the budget through 2013.

Unfortunately, that too understates the impact. We all know our big issue is not the next ten years. It's what comes when the Baby Boomers retire. We know that Social Security and Medicare costs must go up as the population of the elderly goes up substantially, and we have for some time faced the question of how is the federal budget going to deal with that period when the Boomers retire, and in the latter years of the Clinton administration, one idea that could partially, but only partially, help, emerged – that if we paid down the debt, we would eliminate from the budget the 200 billion dollars a year we've been paying in interest payments on the debt. At least we'd have 200 billion a year more in room. That's gone. The deficits and debt aren't going down, they're going up; we're going to have interest payments of that magnitude as far as the eye can see.

Beyond that, the president's tax proposals are constructed in such a fashion that they grow in cost after the next ten years is over. The estate tax wouldn't be repealed until 2010, so you'd only have a couple years of impact in the next ten years. But more strikingly, the savings account, the so-called savings incentives the President unveiled last Friday, are designed with two gimmicks so that there is no net cost over the next ten years, but the ultimate cost, the ultimate cost is probably more than twice as large, more than twice as large as the dividend proposal, very possibly larger than estate tax repeal. You're talking about allowing affluent families of four to move $45,000 every year into tax shelter accounts, all the capital gains interest and other income on which are tax-free for the rest of their lives. The ultimate cost of this is massive. And it comes at the very time when the Boomers will have retired in large numbers. We already face deficits when the Boomers retire under current policies, that are not manageable and that would ultimately damage the economy. We need to address that. These proposals make those deficits much larger, much more damaging to the economy in that period, and it is because of these effects on deficits that we have growing numbers of economists saying that the long-term effects of this package is to reduce economic growth, not increase it.

I want to make one final point. Some of you have talked about Social Security and Medicare. If you look at various pieces of this budget, you can connect the dots. One way in which the administration proposes to get a little bit of the money, but only a fraction of the tax cuts, to offset a little bit of it, with savings that grow each passing year. And that is, unfortunately, to take it out of the hides of low-and-moderate income working families that work hard for wages. Couple of quick examples: the Medicaid program today is structured in such a way that if more elderly people need care, if there's a recession and people lose employer-based health insurance and temporarily need health insurance through Medicaid, if we find new treatments like, let's hope, better treatments for AIDS, they cost money, the federal government pays its share, on average 57%, of those health care costs. The administration proposes to convert Medicaid into two block grants, with a capped federal dollar amount, that would rise each year after the first seven years, it would rise each year thereafter. And they rate more slowly than the increase in the cost of health care for low-income children, parents, elderly, and disabled people. The gap would grow with each passing year. You look at the president's budget: it's a hundred million less than states would get for Medicaid under current law, in 2011, it's four billion less in 2012, it's eight billion less in 2013, and it would continue out and out and out that way. And they've constructed it in a way that the states would not be able to take off of Medicaid the people on welfare and SSI, they'd simply be able to take off the working parents, and children. They'd be able to take off elderly widows at 90% of the poverty line, because the SSI cutoff is 75% of the poverty line.

They do the same thing in low-income housing. They take what originally was a Republican idea many decades, several decades ago, housing vouchers, which most of us now think is our best and most important low-income housing program. It's the biggest. And the housing that we've had twenty year bipartisan commitment in this Congress, that whatever it took to renew the existing number of housing vouchers would be provided, given that we only serve a quarter of the people eligible, and we have a huge shortage of affordable housing. In this budget, it takes the housing voucher program, it converts it to a block grant, and it has that block grant rising at a slower rate than rental costs for housing rise. So each year, you fall farther and farther behind, and you have to squeeze the families who need housing assistance more and more.

Child care – same thing, long term freezes, there's a chart in the president's budget, it's the chart you showed, Senator Conrad, I'm not sure they wanted people to look at this one, shows that four years from now, the number of low and moderate income working families, working families getting child care assistance, would drop, the number of children would drop 200,000 over four years, and that's probably an underestimate.

I could give you other examples as well, but the larger thing here, is that this budget puts in place larger and larger revenue losses, ultimately a revenue hemorrhage, that gets bigger and bigger in the years the Boomers retire, and it begins to have the ingredients of squeezing health care, child care, and things of this sort, for low-income working families, to gradually take more out of them year by year, to cover a fraction of the cost of tax cuts that are heavily tilted towards the top.

The question, and I'll close with a question, the question to me, is, are tax cuts that would average more than 90,000 dollars a year, for people making over a million dollars a year, the nation's highest priority – higher than closing the deficit in Social Security, providing adequate child care, dealing with forty-one million uninsured people, protecting the environment, and the like? This budget seems to say, that's the top priority.

SEN. DORGAN: Mr. Greenstein, thank you very much for that testimony. Next we will hear from Bruce Bartlett, National Center for Policy Analysis.

MR. BARTLETT: Thank you for the opportunity to be the token Republican and sacrificial lamb on this panel, but it speaks well that you do want to hear from the other side. I'm not sure if my Republican friends ever invite Bob Greenstein to testify.

I would just like to say, I'm not nearly as familiar with the details of the budget, and I certainly don't speak for the administration, and I wouldn't want to compete with Bob Greenstein's encyclopedic knowledge anyway, so I thought I would address the big picture – the macroeconomic issue related to current fiscal trends, including those proposed by the President – and basically, the issue is, will a substantial increase in federal budget deficits, that is to say, the national debt, over the next few years, have a meaningful impact on interest rates? Because it seems to me that that's really the central economic question; because if interest rates don't rise, then there's no mechanism by which deficits would have a negative effect on the economy, in my view.

And as you know, there are economists who disagree about this. There's a well-known paper by Bill Gale and Peter Orzsag of the Brookings Institution that suggest there would be a very substantial increase in interest rates under current fiscal trends. However, I've looked at this literature very carefully over the years – the first article I ever had in the New York Times was in 1979, and then I was saying that I didn't think deficits had much of an impact on interest rates or inflation, and I think that the experience of the last 20 years pretty much bears that out. Interest rates have tended to come down when we've had deficits, they've come down when we had surplus, and right now, they're still at a very low level, even though deficit projections are very large. There just doesn't seem to be empirical evidence to support the idea that deficits impact much on interest rates, and I don't say that they have no impact, I just think it's a very small impact.

I think what sets market interest rates are factors much other than the deficit, such as federal reserve policy, the business cycle, international capital flows, and a variety of other things that I mentioned in my paper, and I'd also point out that the international evidence doesn't support the idea that deficits are particularly significant either. I was just looking in the most recent issue of The Economist magazine, the one that came out on Saturday, and I see here that Japan has a deficit of 7.9% of GDP – much, much larger than anything projected under current trends in the United States, and their 10-year bond rate is 0.78%, that is to say, 78 basis points, less than 1%. And I look over here, I see that our friends to the north in Canada have a budget surplus of a little less than one percent of GDP, and their interest rates are higher than ours. Their 10-year bond rates is 5.03, ours is 4.03. And there are many examples. And I've looked at the academic literature, and I just can't find any empirical evidence to say that interest rates really would rise very much, if at all, even under current trends. So I think that's really the point that I just want to make, and you know, we can have a conversation about it, I'm not really that familiar with that many of the details in the budget, but I'd be more than happy to talk about the economic forecast and other things of that sort. I'll stop there.

SEN. DORGAN: Well, Mr. Bartlett, you've given us some grist for future conversation at this hearing, I'm sure, but let me just say, that I have, at nearly all of our hearings, we've invited opposing views, because I don't think it's particularly useful to sit around and have visits with yourself, and so I appreciate very much your willingness to come and testify today, and we will have sufficient questioning, I'm sure. Next, let me call on my former colleague, Barbara Kennelly.

MS. KENNELLY: Thank you, Chairman Dorgan. And good morning to Leader Pelosi, and to Senator Kennedy, and the two gurus of the budget, Senator Spratt, and Senator Conrad, uh, Representative Spratt, and Senator Conrad. Chris, I hope you know what austere company you are in today, and I congratulate you on your victory. I'm here today representing seniors across the nation who support the committee that preserves Social Security and Medicare, and I'm gratified that you asked me here this morning to comment on the 2004 budget, President Bush's budget. To be succinct, the President's 2004 budget would undermine the sustainability of Social Security and Medicare. What it really does is squander the surpluses that many of you voted for in '83 to build up Social Security and plan for the future, and give it to very well off Americans. And what this really does is, it makes it almost impossible for people like myself, who are now just zeroed in on the future of Social Security and Medicare, to understand how we really can resolve the solvency problems in the future if these tax cuts take place. We also have to know that, you know, it was run up the flag at the State of the Union message about Medicare, would dramatically change the whole Medicare program. I sit here as a woman who knows that we have no choice but to meet the demographic realities of soon to be retiring Baby Boomers. I know that's so much. But I would expect that this increase in senior population would be a chance for a strong democracy to step up to take care of these people and to address what is happening in our country, rather than making an excuse to walk away from Americans who might be old, who might be sick, who might be disabled.

At a time of growing deficit and looming Baby Boom retirement, we cannot sustain the permanent tax cut fixation of this administration. What happens is, the first tax cut in 2002 and this new tax cut, what it would do is just take away the revenues that we need to resolve the future of Social Security and Medicare. My next paragraph is a recent analysis of from the Center on Budget and Policy, so I can skip that because you've got this wonderful man here, Bob Greenstein. But I can say to you, and I ask you to do this for me – I can't understand why the administration is unwilling to provide the budget standard for ten-year costs. The OMB director has said, "Well, I can figure out how much it's going to cost for five years. But you really can't rely on figures beyond five years, you can't go to ten years." Well, let me tell you something. Turn the pages in the budget on Social Security and Medicare. What they do is, they analyze what's going to happen with Medicare in 75 years. Then they take these figures, and analyze what's going to happen with Medicare, which we all know, because we have the people at Social Security, who can be relied on, well, what happens in 75 years with Social Security. They then put these two numbers together. It really paints the bleakest picture for Social Security and Medicare. So they can do it up to 75 years for the most popular and successful programs that we have in the United States, but they only can do the tax cuts for five years. As representatives of your people, please ask the question: why is this thus?

I know that Bruce just said they don't matter, but can I tell you, the return of deficits have dire consequences for Social Security and Medicare. The surpluses that were generated as a result of a number of things which many of you, except for Chris, were involved in: the '83 Social Security reform, the '97 Balanced Budget Act, these surpluses were there because we were looking to the future. If you use surpluses for tax reductions they will not be there for future generations. And that's what I'm here to tell you this morning – the numbers just don't work. I know – Bruce, you're in good company – the administration doesn't seem to think that these deficits are important. I come here as the National Committee President to Preserve Social Security and Medicare, and what I've heard from my members since the State of the Union message is that these deficits are very, very worrisome to all of us. In the State of the Union address, the president reiterated his support for privatizing Social Security. We had hoped that he might change his mind, because his own commission had come in with such drastic costs for a transition and such huge benefits cuts, we had hoped that maybe he had decided maybe this wasn't a good idea. He didn't; he reiterated his support. But the fact of the matter is that we're very concerned that the administration has not proposed any efforts to really address the solvency problem that we all know is out there.

Let's talk a minute about Medicare. You know, Medicare's hospital trust fund is projected to remain solvent until 2030. Senator Kennedy, Senator Dorgan, we can remember when, in the late '90s, when the projections were two years, and, so this is bad, but it's not as bad as it used to be. But we understand that Medicare has to be refocused, the costs have to be refocused, it doesn't have preventive care, obviously, we've talked about for two years, it doesn't have prescription drugs, and it must be updated. However, the president's proposal to revamp Medicare simply moves the program into the private sector. We await all the details, and my heavens, since the night of the State of the Union message, we have been waiting to find out what the future of Medicare is. But a shift towards privatization would violate Medicare's social insurance nature. And what would happen is, that one more program, a popular program – now we all know that Medicare's out-of-pocket costs are high. You know, co-payments, meta-gap! But it's the most popular program because, let me tell you something, if you are a woman, eighty-five, who breaks her hip, she knows she can go into the hospital, she can have good care, and maybe she can get along. And that's what Medicare has been about – taking care of citizens. It's a universal program! Once you're 65, you have Medicare! We have 42 million people uninsured in this country! I cannot understand why this administration is looking to change Medicare and is not looking to other areas. This program works. Does it have to be updated? Of course it does. There were lessons to be learned about privatization from our experience from Medicare Plus Choice. I'm from Hartford, Connecticut. Aetna, Travelers, Hartford Insurance

Company. I know a little bit about insurance. I know exactly why in 1965 that Medicare had to come into being because, you know, you have to insure risk. And elderly people are risky. And they cost money. And that's why we have Medicare. In 1997, bills were passed to make it more possible to have Medicare Plus Choice work, that was Medicare Plus Choice. But since then, we've had two legislative efforts to make it work. This administration is enamored by Medicare Plus Choice. I'm enamored by Medicare. I can go on, but I think my time has kind of gone out, but there are many serious concerns that you are in a position to address.

You are in a wonderful position, as members of the Senate and the House, who represent the people of the United States of America, but before I leave I want to say one thing to you: Keep your eye on Medicaid. You know, I know you know, that this year is the first time that Medicaid has more people enrolled in it, and Medicare costs are higher than Medicare. We don't talk about it much, because, you know, those poor people. Originally it was, you know, for poor children. Now it does many more things – pregnant women, it has a lot to do with seniors, because a lot of seniors are poor. So I come here this morning to say to you that I know this is a time of war. This past week has been a time of very definite heartbreak. But this country is here to take care of its people, and Medicare and Social Security has done it. And we can continue to do it, and you are the ones that can do it.

SEN. DORGAN: Barbara Kennelly, thank you very much. We're joined by Senator Kennedy this morning and, Senator Kennedy, do you have a comment you want to make? Perhaps let me recognize you for a comment and then begin questioning since you have not previously spoken.

SEN. KENNEDY: Well, thank you Mr. Chairman, and I want to thank Nancy Pelosi, and our leader Tom Daschle, and all of those that are here for bringing us all together, and bringing the excellent panel and thanking them very much for a very informed and helpful discussion about the direction of this country in terms of its domestic agenda. It seemed to me, and I was just listening to Barbara talk about how we're coming into this week with a certain sobriety after the loss of the seven courageous astronauts, and it reminded me that we're also not all that far away from 9/11. When we came through that period of grief and suffering, we saw the most extraordinary courage and generosity of spirit among the American people. And it seemed to me that that ought to be kind of the criteria by which we look at what we're going to be doing here at home. They set the standard. Average, hard working Americans with their courage and their bravery, reflected really the tone of the American character. It seems to me that we ought to try to evaluate whatever we're going to do, to measure it against those kinds of qualities. It's a personal view, but it's one that I feel very deeply about, and I think most Americans would feel that's a fair evaluation.

And I think that others had talked about earlier, that obviously a budget is a reflection of our national priorities, and its shortcomings when we're talking about the neediest people in our society. I look at one particular area, and I look at children. I look at children. I look at the 500,000 children that couldn't see a blackboard, 300,000 children that (*unintelligible*). Millions of children each year that have flu and influenza because they're not getting decent health care. And we passed the CHIP program. Bipartisan, Republicans and Democrats alike. And today there is no reason for any child under 18 years of age not to have health insurance because you got the Medicaid, the CHIP program, those that brings it up to 18 years of age.

This administration, in its block grant, will permit states to use the CHIP money to build bridges and build roads. It's basically abdicating. We're not even talking about their education budget, which fails, the solemn pledge. This president, on this legislation, it says, you pass that, and every child in America, every child, I can give you the (*unintelligible*), say within twelve years, twelve years, that every child is going to be proficient. And we're not seeing an expansion of the program. We're failing to meet that commitment. How can people have any confidence in terms of the leadership? Ms. Kennelly talks about what happens to Medicaid, a great percentage, although not in terms of the utilization of the moneys that are expended, but tremendous numbers of children are being sort of cut back. So the children, let alone what's happening in childcare, tremendously concerned about them.

Another point that I'll just mention, there are many. But in education, abdicating our responsibility in terms of children is a national disgrace, and it's reflected in our budget. Money doesn't solve the problem of everything, but it's a pretty clear indication of a nation's priorities, and the youth of this country.

Just two final thoughts, one thought, and then a question. We are, I believe, in the period of the life science century, with the explosion of the opportunities that we have with these medical breakthroughs: DNA, protonics, genomics, the diagramming of the infrastructure of the molecule, it just goes on and on. We are there with opportunities and breakthroughs, with all its implications. I mean, you see the breakthrough in Alzheimer's and you empty two thirds of the nursing home beds in Massachusetts. We're not that far away from it. And now we have this arbitrary cut in terms of the NIH budget, which we built up over the period, Republicans and Democrats alike. And what is the other side of it – why, why, why? It's for tax cuts, for tax cuts.

Which brings me to my question. And I think enormous lost opportunities in terms of how we're going to treat the health of our people here at home and what we could do for people around the world. A question to Mr. Greenstein: for years at least our party has been challenged with the label of being the 'redistributive party.' Taxing the wealthy, giving to the poor, taxing the wealthy, giving to the poor. I would like your analysis of what we're seeing at the present time, where we are continuing with the payroll tax and giving to the wealthy. It seems to me that we are seeing the greatest redistribution of resources from working families to the wealthiest individuals taking place in the history of this country. I'd be interested in knowing whether I'm on base or off base. If I am off base, let me down slowly. If I am on base, go to it. Let me hear from you.

MR. GREENSTEIN: Senator, I wish you were off base, but I don't think you are. The agenda that is set forth in the budget that the President sent to Congress on Monday, I think would indeed have just the effect you've mentioned. If you look at the tax provisions, in their totality, what they would mean… it is not simply reductions in the top tax rates. It goes far beyond that. For example, under the savings accounts provisions. Pople at high-income levels, say a family of four, could put $45,000 every year, could move from stocks and bonds and if you get dividends and capital gains on them, they are taxable as income. We already tax capital gains at a lower rate than wages. It gets a preferential rate. Under this proposal, over time, people with a lot of wealth could move more and more of the wealth into the vehicles that are tax-sheltered for the rest of their lives. Now it will take a number of decades until you have the full effect, but eventually you get to the point where nearly all of the capital gains, the dividends, the income earned on large fortunes in the country, all the income on it is tax-free for that person's entire life. And then the big accumulation is passed on tax-free because there is no longer an estate tax.

That causes, over time, massive revenue hemorrhage beyond anything that came out in the budget numbers, in the budget that came out Monday, because that budget has a lot of numbers for five years, it has some numbers for ten years, but these provisions have their big effect after ten years. And then you get to the point where if you didn't do anything else the deficits would be so large that, although I disagree with Bruce on the interest rate effect, even if deficits had no effect on the interest rates, which I think is not the case, even if that were the case, sustained deficits of the magnitude that would result from these tax cuts would have such an impact over time on national saving that it would slow the economy. We'd have rising debt; the debt-GDP ratio would ultimately cause big problems. Policymakers would not allow that to occur. So, all of the things you have talked about – the CHIP program, Medicaid, child-care, and so forth – the proposals we see in the current budget would be the tip of the iceberg compared to what we would ultimately have to do to avoid damage to the economy given the revenue hemorrhage that would occur at that point.

In my view, what we see in this budget are the early markers that would set us out on that path. Convert Medicaid to a block grant, that does not keep pace with the increase in health care costs; have some protection for the people on welfare and the working poor just above the welfare cut-off who are hung out to dry. Freeze child-care for years on end, while the costs of delivering child-care rise roughly with inflation, reduce the number of child-care slots every year again with the primary hit being on working families.

Today we have a social contract and our pension system. If you are a small business owner, you can put away $6000 a year in tax-deferred savings between you and your spouse. But if you want to propose to put away more than $6000, you have to set up a pension plan that covers your workers as well as yourself. If you do that, you can put away a hell of a lot more than $6000 for yourself but you have to cover your workers as well. This budget says, "Forget the social contract. We'll let you put away $45,000 for yourself and your spouse a year without doing any plan for your workers," and that is why a number of the leading pension experts in the country are saying over time rank-and-file workers, more and more of them, would lose their pension coverage. So I think you're right, when you play this out over time working families would get particularly squeezed. Yes they get some tax cuts in the short run, not a whole lot but some, but they'd inherit this big debt that would have to be met possibly through a combination of slower growth because of the combination of deficits and the strain on national saving all the time, and gradually through squeezing health care, child-care, pension coverage through their employer, and things of that sort. So I agree that it is a transfer from ordinary working families, especially those getting modest wages to the people at the very top of the income scale. I don't think this has the slightest thing to do with class warfare, or envy, or pitting people against each other. That is why people like Bill Gates, Warren Buffett, they are not envious of themselves – they are among the leading critics. It's a question of what is the priority for the country? Is the priority of tax cuts averaging over $90,000 apiece for people that make over a $1 million a year a higher priority than health care, child-care, pension coverage, and education for working families? That's the question we have to debate. What is the priority?

SEN. CONRAD: Let me just go back to a chart that I used in an earlier presentation that I think tells me that we are headed for the precipice, and that the only possible outcome is the shredding of Social Security and Medicare, and frankly much of the rest of government as well.

This again is from the President's own budget. This is deficits as a percentage of GDP; it shows deficits beginning up until 2010. But look what happens once the baby boomers start to retire. We plunge into deficits. This is not my chart. This is no chart prepared by the Democratic side; this is from the President's own budget. It shows a plunge into the abyss of deficits that are totally unsustainable. There is no way we can go to twelve percent of GDP. These are budget deficits that would be into the hundreds of billions of dollars a year – approaching a trillion dollars a year. This is where we are headed.

Last year, Mr. Crippen, the head of the CBO and a Republican appointee, said this: "Put starkly, Mr. Chairman, from the extremes of what will be needed to address our retirements are these: we'll have to raise taxes to thirty percent of GDP." By the way that would be a fifty percent increase on every tax we have, obviously unprecedented in our history. "Or eliminate most the government as we know it. That is the dilemma that faces us in the long run, Mr. Chairman, and these next ten years will only be the beginning."

I think that people are assuming that what we've experienced in the past is what we are going to experience going forward. That's not the case. In the 1980's we had time to get well. We could run massive budget deficits because we had time to get well before the retirement of the baby boom generation. This time, there is no time and that's why we have to approach this differently. These budget deficits are totally unsustainable and they are going to wreck Social Security and Medicare and much of the rest of government, as we know it. It is absolutely clear as it can be, at least to this side. Let me just close by an ad that was put in major newspapers last week by the Concord Coalition. This is an ad signed by former Republican Senator Warren Rudman, former Republican Secretary of Commerce Pete Peterson, the former Secretary of the Treasury Robert Rubin, the former Senator Sam Nunn, and they say are we really cutting taxes or just raising them on our kids? The point they make is that to enact permanent new tax cuts in the face of large new spending pressures such as the prospect of war with Iraq, and the inevitable post-war costs, massive but indisputable homeland security needs and a major prescription drug add-on for Medicare would claim that America can painlessly have it all. Unfortunately, we can't.

Let me just ask the witnesses what is your assessment of a group like the Concord Coalition that has long said deficits do matter, they reduce the pool of societal savings, they reduce therefore the money that is available for investment, and as a result they reduce economic growth. What is your assessment?

MS. KENNELLY: I always had a good record when I was in Congress with the Concord Coalition; I agree that we have to be budget responsible. One of the things that bothers me in all of this discussion, and I feel so threatened by when I give my life to Social Security and

Medicare, is that the Concord Coalition puts Social Security and Medicare in with every other program. What Social Security is, and what Medicare is, is a social insurance. The debate we are having right now, and the debate that is really moving forward and is the most startling the night of the State of the Union message is all of a sudden, Social Security and Medicare are just becoming another budget item. I think Social Security and Medicare are social insurance; insurance against devastation. When we have these debates about numbers I think we have to understand that the commitment has to be there to protect social insurance. What we are saying now is that Social Security and Medicare are just another part of the budget. We know that Social Security is backed by the full faith and credit of the United States of America like Treasury bonds. All of sudden I am hearing the debate going on that we are just another item in the budget. This worries me terribly. I vote with the Concord Coalition to a certain extent, but then I say it is still the responsibility of a strong democracy to take care of those that are sick, disabled, and old.

REP. SPRATT: Thank you Mr. Chairman. We might have to impose a chart limit at some time, but I've only got two. Mr. Bartlett, you would agree would you not, about this matter of arithmetic and economic doctrine that a deficit is dis-saving?

MR. BARTLETT: Not necessarily. I think there is a difference between the deficit that arises from a tax cut, which returns resources to the private sector, and a deficit that arises from increased spending. I think there is a difference in spending if it's spending on goods and services that preempt real resources from the economy, and spending that involves a pure income transfer. So I think it depends.

REP. SPRATT: As a matter of basic doctrine, that is what the text books say, it is dis-saving. This is mainstream economics.

MR. BARTLETT: Well, it is an accounting identity. I think we need to be careful not to make more out of that than it is. If you're an accountant you know that debits don't cause credits and vice-versa, they simply by their nature have to add up by the end of the day. So I think that it depends upon the economics of the situation.

MR. GREENSTEIN: If you are looking at the capital available for savings and investment, if you have government deficits you have to take some of that pool of capital to address the deficit. You reduce the saving pool that is available. There is a way around that. You can borrow more from foreign investors, but then more of the income that is earned on the investments goes back over seas and out of the country. So there certainly is a legitimate debate as to whether you get auxiliary economic benefits from these kinds of tax policy changes or certain kinds of spending changes, job training, infrastructure etc. Government deficits do have an effect on the capital pool that is available for investment in new plants and equipment by definition.

REP. SPRATT: Several years ago when we first foresaw the prospect of large surpluses in the realm of two to three trillion dollars over ten years, Chairman Greenspan told our committee this may be the single most efficient method we have of increasing the deficiency of savings in our country. If we can stick to this path and accumulate these types of savings in the public sector, then you can achieve even in long-term rates what we have done for short-term rates you can bring them down. The result will be long-term growth. Is anything wrong with that?

MR. BARTLETT: I think you have to very careful not to hold everything constant. A tax cut that leads to an increase in private saving would increase the pool of saving. I think that is equally fallacious to assume that a budget surplus adds dollar-for-dollar to national saving, which is the flipside of what you just said. For example, if you raise taxes in a way as to discourage private saving you might find that the net increase in aggregate saving is less than the amount of the tax increase. It just depends.

REP. SPRATT: Let me put it to you a different way. Look at just the raw numbers across the top line there. This is just the deficit and general fund budget of the United States. Leave out the Social Security Trust Fund, after all statutorily we've taken it off budget, look at just the General Fund for the next five years and look at those deficits. It is nearly a half-trillion dollars every year barely diminishing between 2004-2008. Doesn't that give you pause? Don't you think that will create a fiscal drag on our economy that will stifle growth instead of stimulating growth?

MR. BARLETT: All other things being equal, if you can make deficits disappear, that would be true. But, there is no way of making deficits disappear, other than by raising revenue or cutting spending. Those things will have independent effects upon the economic growth path. I think it would make a lot more sense if we would talk about these numbers in terms of percentages of GDP and things of that sort because we do have a ten trillion dollar economy, and by 2008, I don't know what the projections are, but it is probably going to be up to around fifteen trillion.

REP. SPRATT: So a half trillion-dollar deficit doesn't scare you?

MR. BARTLETT: No. What I look at when I try to determine whether a deficit is a problem or not, and I certainly wouldn't preclude the possibility of that deficit being a problem at some point in the future, I look at the people who buy and sell bonds because they are the ones who really are on the front line who determine whether a deficit determines crowding out or not.

REP. SPRATT: The people who buy bonds are not just Americans. They are Asians and Europeans and they do look at our fiscal accounts, and they do become concerned, do they not, when chronic structural deficits like that in our fiscal accounts.

MR. BARTLETT: They may, and if they did, I would become concerned. But there is no evidence of that right now, partly because other countries are adopting do not have growth-oriented economic policies. Japan has been very weak for many years. Germany and other countries in Europe are doing very poorly and as a consequence, investors in those countries have no place to invest their money. You get a negative rate of return in Japan, so people are going to buy assets in countries where growth prospects are better and I believe that will insure a continuation of foreign capital inflows.

MR. GREENSTEIN: I think there are two issues here. I think in a number of statements, particularly from Mitchell Daniels the OMB Director, you hear these statements that these deficits aren't that big, they are manageable, they are a small percentage of a ten trillion dollar economy. What that misses is that we are now in the peak earning years of the baby boom generation. Yes, right now we are in an economic slump, and it is fine to be running a deficit right now. But we then have a short window, once we get out of the slump, where the boomers are in their peak earning years, which means you can collect more revenue, before this demographic tidal wave hits us.

Now if we are running deficits or two or three percent of GDP, your years are going to be the best for the next fifty because of the demographics. If you go into the baby boom generation's retirement already running deficits of that magnitude, then the deficits go through the roof when the boomers retire. Unless you are going to savage Social Security and Medicare, which I don't think either party is going to do, the deficits go through the roof. They get to levels that are quite damaging to the economy. You might be able to make an argument that the deficits printed in this budget aren't that unmanageable if we were about to go to a period where the working-aged population was going to grow as a percentage of the population and the elderly were going to shrink as a percentage of the population. You can't make the argument that this is manageable policy knowing that the boomers' retirements are just a modest number of years away. Now, the answer to that I hear is that yeah we agree that there is a problem for the budget when the boomers retire, so the answer is to have more economic growth there and the way to have more economic growth there is to get more tax cuts. This is a sophisticated way of saying the tax cuts would more than pay for themselves.

Well, when you look at the CBO estimates of the economic impact of the 2001 tax cut under Mr. Crippen, who served in President Reagan's White House – certainly a career Republican appointee, and I'm not saying that to be critical of him at all, I'm just saying that he is not some liberal Democrat trying to make the President's plans look bad – the CBO estimates are that the long-term effect of the 2001 tax cut is a range between making the economy after ten years, one half of one percent bigger than it otherwise would have been to one half of one percent smaller than it otherwise would have been. Very small positive, or very small negative. Changes of that magnitude offset a tiny fraction of the revenue loss. And when you get out beyond ten years and the Boomers retire, the deficit situation that it puts you in is extremely damaging for the economy.

REP. SPRATT: One last question, because I'm taking more than my allotted share of time, let me show you one more chart, Mr. Bartlett, and let me ask you, I think you would agree, I think I've heard you say, that increased taxes do constitute a fiscal drag on the economy, they do, they do restrain and stifle growth. Well, when we borrow money, eventually interest has to be paid, and eventually, for that matter, the principal has to be repaid, and in time, when we borrow sums like those we were just seeing as a result of the deficits we'll be running per the President's projections, we've got a steadily increasing debt service. Now we've seen the phenomenon over the last several years that when we put the budget right again, where we've actually had a decline in debt service, partly because we were running surpluses for a while and paid off 400 billion dollars of debt, but also because we had lower interest rates, which I think was to some extent responsible, was due to the fact that we had good fiscal policy. But look what happens if you take that path plotted by the President's proposed budget and incur the deficits, he acknowledges it'll incur, look what happens to gross interest for a family of four. This year, gross interest on the federal debt for a family of four is $4500. By 2008, the end of that five-year time frame, their numbers, gross interest for the family of four would be $6471. This is a debt tax, and unless you can find a way to absolve ourselves of the national debt without paying it, this as inevitable as taxes itself; this is, this is what we're burdening the near term generations with. Now this is a problem, isn't it?

MR. BARTLETT: Sure, but look, I mean, many people on your side have legitimately criticized the President when he says that the average tax cut is going to be whatever he says it's going to be, and people like Mr. Greenstein put out numbers saying that's a distortion because that's not the way average people actually will be affected, and you're making the same mistake with these numbers. I mean you make it seem as if there's going to be a tax increase of $2000 per family on ordinary people, and that's simply not the case. Secondly, interest payments on the debt are probably the most benign form of government spending there is. It's just a pure transfer to people who buy the bonds. I don't think that this is a problem of economics to the same degree that I think you do. And thirdly…

REP. SPRATT: Let me suggest to you on the debt service aspect to the contrary that they're not benign – they're insidious because we tax people more and more just to pay the interest and we have nothing to show in return. It is the worst kind of tax because there's no product at the end of it, no service rendered.

MR. BARTLETT: My point is, when the government takes real goods and services out of the economy, those services cannot be used by the private sector. An income transfer has different economic effects. And you're right; the main problem with having high debt service payments is you have to have higher taxes than we would otherwise have to have. That's why it gets back to what is the impact of taxation on the economy, which is where I think we started the discussion and why the President believes taxes should be cut.

SEN. DORGAN: I understand Mr. Greenstein has a time problem. I'm going to recognize Congressman Van Hollen, and then we will go on to the second panel.

REP. Van HOLLEN: Thank you, Mr. Chairman, I'll be brief. I'm the newcomer here; I just came from state government, and I'm still under the illusion I guess that on balance it's better if you can balance your budget, which you have to do at the state level, than not. Obviously at the national level, very difficult economic times, it's perfectly reasonable to run a deficit to make sure that the economy has a stimulus and to make sure we have economic growth, but over the long term, these tax cuts to be proposed are not one time stimulus tax cuts. Over the long term, we're talking about the tax cut passed in 2001, we're talking about the next tax cut on the table now, we're talking about the additional losses down the line with the new pension and savings plan. So my question, my question, Mr. Bartlett, is you've said, that to deal with the deficit, at some point, you have to do one of two things: you're absolutely right, you either have to raise taxes, or you have to cut something. And if you raise taxes, you're doing what Senator Conrad was talking about, what the Concord Coalition is worried about, you're talking about raising taxes on future generations. And if you cut, you're talking about deep cuts in things like Medicare and Social Security, if you want to make the kind of cuts to reduce the kind of huge deficits we're talking about running. So I guess my question to you is: down the future, how do you see us addressing these major issues, the issues of Medicare and Social Security that have been raised today? On the one hand, do you think we should be cutting back on those programs, and if so how much, or do you think we should be raising taxes on future generations to address these issues?

MR. BARTLETT: Well, first off, let me concede that long-term trends are worrisome, but they have been worrisome for some time. And I think that we sometimes get carried away with thinking that trends set into place today cannot be changed, and of course they can be changed. For example, we had a very large tax cut in 1981, as you remember, and then President Reagan turned around and signed tax increases almost every year of his presidency. Circumstances change and I think policies change.

But I think the important thing to keep in mind is that ultimately, it's the size of the economy, it's the productivity of our workers that is the base on which all government rests. And I think that if we give workers more tools and equipment by increasing the incentives for investment and saving, we're doing a lot to help make those long-term trends manageable. And I think that there's a fear, I'll be explicitly political here, I think there's a very deep concern on the Republican side that surpluses don't actually ever get saved, they always end up getting spent. And so you don't really deal with those long-term trends by stocking the money away. And I think that if there were some way of truly walling off budget surpluses in some way that they did not meaningfully lead to, I forget the word, fungibility, you know, then I think you'd have a much stronger argument for maintaining a policy of budget surpluses.

MS. KENNELLY: Representative, can I just add to that? You're going to spend thousands of hours discussing the future solvency of Social Security and Medicare. In my past, I've spent hundreds of thousands of hours discussing that. There was sunshine there for a couple of years when we did have a surplus, and for the first time we could discuss how we could approach the long term solvency of Social Security because we had a surplus, and what we had with the surplus was that we could buy down the debt. And by buying down the debt, we had less interest payments that you could put forth and do the benefits that we have to have in the future. So by saying that deficits don't matter means that we will have a lot of talk, and we won't be able to solve the problem. If we have deficit financing and huge tax cuts, we will never have a surplus and we can never resolve the long-term solvency of Social Security.

MR. GREENSTEIN: I just want to very quickly note that the tax cuts enacted to date, that doesn't include any of the new proposal, the tax cuts enacted to date, if they're made permanent, their cost over seventy-five years, which is the period we normally measure the Social Security shortfall over. The cost over seventy-five years is more than twice the Social Security shortfall. Now if you listen to some people talk, the Social Security shortfall is a chasm. It's gigantic, and the tax cuts are modest and reasonable. And we get tax cut numbers for ten years, and we get Social Security shortfall numbers for seventy-five. If you compare apples and apples, it's more than twice as large. If you then add to that, the new tax cut proposals in the new budget, we're now approaching, the revenue loss over seventy-five years, three times the entire Social Security shortfall.

Now that's not to say that one should simply undo the tax cuts and transfer all that money into Social Security. I think we do need to make some changes in Social Security for the long haul, but it gives you a comparison. We could use some of that money to help fill the Social Security hole, because if we have to fill the entire hole without any revenue from the rest of the budget at all, there will be no way around devastating benefit cuts or crushing payroll tax increases.

Finally, you mention state government. Because as you know very well of the linkages between the federal and state tax codes, the proposals in the budget that came out Monday would cause states to lose in state revenue up to sixty-four billion dollars over the next ten years.

SEN. DORGAN: As I excuse the panel, let me ask Mr. Bartlett a question. Mr. Bartlett, you indicated that since the deficits don't matter much, what matters it's the economy growing. Do you support a constitutional amendment to balance the budget?

MR. BARTLETT: No, I do not. I never have.

SEN. DORGAN: Do you think it's inconsistent, or strange, for the President to submit budgets with very large deficits and at the same time indicate that those deficits are caused by predictable imbalances in revenue and expenditures during an economic downturn, therefore saying that you expect these things, and then at the same time saying let's include in the Constitution a requirement to balance the budget, is that a contradiction?

MR. BARTLETT: I wouldn't do it, but I'm not sure, I'm not familiar with the specifics of the proposal the President made, something like a spending limitation amendment might be worthwhile, but no one has ever figured out how to enact such a thing that would be self-enforceable. It's simply not doable. You may remember some years ago, former senator Harry Byrd Jr. of Virginia got a law passed through Congress that said a budget must be balanced. Well, obviously it didn't get balanced, at least not in the time frame. It's posturing, it really is, and I'll admit that.

SEN. DORGAN: There's no question that we ought to be fiscally responsible. I mean, if we're spending money that we don't have now, we're spending our kids' money, right, I mean we're affecting our children's future. Would you agree with that?

MR. BARTLETT: I have a problem with the whole idea of passing on debts to future generations. I don't think that the burden is quite the way people think about it because the government lives forever. Individuals die, their books have to balance one way or the other, but our children will also be inheriting all of the assets, all of the bonds and the interest flows on those bonds, with which they can pay future interest costs. So I don't think we're really burdening future generations any more than our generation is burdened by what our parents did.

SEN. DORGAN: It is often said that the government should be run like a business. Clearly deficits matter to business, and corporations don't die, shareholders die. Corporations continue unless they go bankrupt. Are you one of those who say to run government like a business?

MR. BARTLETT: I think it would help if we had our governmental accounts more like business accounts…

SEN. DORGAN: But then deficits would matter, correct?

MR. BARTLETT: Yes, but we would also have a capital budget, which all businesses do, and they segregate long-term investment and things like plants and equipment from their general operating expenses from, which as you know the federal government does not do. I think there are a lot of problems with the way we calculate these numbers, and one of the things I always look forward to every year is the Treasury's report on government finances that's coming out one of these days. That has a lot of useful information in it about the assets and liabilities of the federal government. And I think anything that increases transparency and clarifies these issues for both members of Congress and the general public would be highly desirable.

SEN. DORGAN: Let me just finally say, that I used to teach economics briefly, but I point out to people that I've been able to overcome that experience. It is interesting to me that we now have very large federal budget deficits, current and projected, we have record trade deficits, which affects our current accounts balance. My assessment is that we had better be serious about addressing the confluence of these events that take from this country's future, from its economic future. Your perspective is an interesting one. I've of course read you over the years, and I appreciate very much your willingness to come, Mr. Bartlett, and Mr. Greenstein, to participate, and Barbara Kennelly, thank you very much for your testimony, and we will hopefully continue this conversation.

I will excuse this panel and ask if we can have Lucille Bryson, Beverly Ingle, and Michael O'Hanlon come to the witness table. And while we are doing that, let me say that Michael O'Hanlon is from the Brookings Institution, and then our two final witnesses, we will have them at the panel at the same time. Lucille Bryson, who's a citizen here of Washington DC, and Beverly Ingle, from Laredo Middle School at Cherry Creek, Colorado. And why don't you proceed to be seated at the table. We thank you very much for being with us, and for your patience. The first panel is, I think, an interesting discussion of budget policy and fiscal policy. Mr. O'Hanlon, my understanding is that you are going to be talking about homeland security, among other things. If I might ask if we can depart the room quickly, thank you very much. Mr. O'Hanlon, let me ask if you will bat clean up for us, and let me ask Lucille Bryson to proceed. Lucille, you are a resident of Washington DC, I understand.

MS. BRYSON: Yes I am.

SEN. DORGAN: And if I might ask someone to pull the microphone closer to you. We appreciate your willingness to come to the United States Senate and be with us.

MS. BRYSON: First of all, greetings to each and every one of you, and I'm very happy to be here. My name is Lucille Bryson. I am here today to testify about my experiences with my Medicare HMO and to ask Congress to do something to help seniors like me get the health care and the prescription drugs that we need.

I am eighty-two years old—I'll be eighty-three February 28. I am a native Washingtonian, but I moved away in 1952, and I lived for many years in Oregon and California. After my father died, I moved back to Washington to take care of my mother in the '80s. Now that she has died I live on my own in the same house where I grew up. God never gave me any children.

For much of my life I was in good health. But in my 60s, I developed heart problems that require expensive prescriptions and medications every day. No matter what else happens, I am going to need these medications every day for the rest of my life.

Five years ago I enrolled in a Medicare Plus Choice plan. I was attracted to this plan because it offered me benefits and services that I needed: free rides to the doctor's office, free x-rays, free blood work, and, most importantly, prescription drug coverage. I wasn't happy that I couldn't choose my own doctor, but I decided to enroll because I needed these other benefits.

But once I enrolled, my costs started going up and up. My monthly premiums were constantly increasing. When I first signed up with the HMO my monthly premium was only $19.98. Over a three-year period it quadrupled to eighty dollars a month. My co-payments were going up all this time, also—they started at five dollars per visit, and by last fall I had to pay fifteen dollars for each visit to see a doctor. At the same time, my costs were going up, my benefits were going down. They stopped providing transportation to the doctor's office. I was told that I wouldn't receive x-rays and mammograms as part of the plan any more. And they raised the cost of my prescription drugs.

With my heart condition, I have to pay close attention to any swelling in my ankles and feet, and every so often I have to go in to have IV treatments to prevent excessive fluid build-up around my heart. Last October I went in to my HMO to have this done, and shortly afterwards I developed an infection near where the needle had been inserted. The infection spread, and my condition deteriorated to the extent that I couldn't use my hands, I was too weak to walk, and I had to be admitted to a hospital—where I stayed for only two days—and then my HMO sent me into a nursing home – and this is (*unintelligible*) to be desired – for the next four months. I was just released on January 29th 2003.

My health care costs were a burden before, but the nursing home has now ruined me. Just the room alone was 200 dollars a day—and that wasn't even for a private room. On top of that, I had to have physical therapists help me regain the use of my hand and my ability to walk—and this was added to the bill separately. My HMO only provided coverage for three weeks, I want you to hear that, three weeks, and after that I was on my own. I have a bill in my pocketbook right now for 17,935 dollars that I owe them, which they expect me to pay in installments of almost 4,500 dollars at a time. I don't know anybody who has that kind of money.

Now that I'm out of the nursing home, I learn that my health care coverage is even worse than it was last fall. My premiums went up another seventy-four percent starting in January—to 139 dollars, listen carefully, 139 dollars, and my benefits were cut back. When my social worker looked at that, she told me that it didn't even make any kind of sense for me to stay with the HMO anymore. I just couldn't afford it even if I wanted to. So I am now back in the original

Medicare program, and I don't have any help with my prescription drug costs. Right now, I don't even have a regular doctor because I had to leave the HMO.

HMO Health care costs have almost bankrupted me – not almost, they have bankrupted me. I don't have any savings left. I took out a loan on my house to get a new roof and make a few other improvements. I had a few things done, but, most of all, I wound up giving all my money to the nursing home.

Now all I have to live on is my Social Security benefits of $988 a month, plus a small pension check I get of thirty dollars a month from Oregon. Medicare itself takes almost sixty dollars of this amount every month. My prescription drugs run me at least $137 a month—almost fifteen percent of my income. And, like everybody, I have a lot of other bills to pay. In March, that's this coming March, I will owe $550 for my house insurance, and $358 for my DC property tax—that's practically all my income for that whole month.

However, I am trying to make it work financially, but it is very, very hard. I have to cut costs any way I can. I have an electric chair on my staircase at home that helps me get up and down from my bedroom, but it uses a lot of electricity when I have to use it, and it's expensive to operate. I have to limit my trips up and down the stairs to save money. And how do I do that? I stay upstairs in the room until 12 o'clock to use the bathroom, so I don't have to take an extra trip so I won't have to come up to the bathroom. I used to get meals on wheels, but five dollars a day is too much – I've had to cut that out. I used to go to the Dollar store – this may not sound important to you, but it was very important to me. I'm a cheapskate. I used to go to the Dollar Store with ten dollars out of my allowances, and buy little knickknacks, or things that I would need for the house, or maybe a gift, and I found such good bargains. But most of all, I had planned, that when I had retired in my old life, that I had wanted take a month cruise – a vacation I had always wanted to take from my early youth. Now, I don't have the money for anything like that – I can only dream about it.

So I just want to conclude by saying that things should not be this way – I will repeat – things should not be this way for the seniors. Congress should make sure that every senior citizen is covered for the medicine and the health care that they really need. I'm not speaking about the people who may be a senior citizen but also have the money to afford to buy their drugs. I'm speaking about people like me. Even though I save and I scrimp, it's all going now because I had to go to that nursing home. Seniors have worked hard and made sacrifices for our country—and please don't forget that – we deserve better than that. Thank you so very much for the opportunity to come here today to testify before you.

But I have one more thing to say that's not on the paper. One of the (*unintelligible*) experiences in my entire life was when I went to the nursing home. I had a couple of friends who complained to me about the nursing home. But not any point of what I observed had took in that nursing home. Now I'm going to say something that doesn't sound very pleasant, but please forgive me. In the nursing home, whether you were male or female, after you've had your dinner and your medication, because you never know when you were going to get it, you may get it at seven o'clock, you may get it at six, you may get it at twelve o'clock. The same thing when they change and clean you up.

I had an appointment with the physical therapist at ten o'clock every morning, sometimes I got there ten-thirty, eleven-thirty, but they were very cooperative because I was a determined person. I was determined to walk again, at any price, and I am walking, not too much yet because I'm still in the physical therapy program. However, I will get stronger, and now, I can get into and out of the wheelchair, I can get in and out of my electric chair which is very important to me, and get on the landing and catch the *(unintelligible)* and make it to the bathroom or my bedroom.

However, I want to get back to the nursing home. At two hundred dollars – you want to know why I'm cleaned out? – after taking this loan, I paid so much for the house, with very little set aside for me. I watched, and didn't go overboard step-by-step. That was how I was able to accumulate some money and also other things, presents, gifts, and whatnot. That was six thousand – I want you to hear me clearly, everyone – six thousand and two hundred dollars per month. I've got a bill in here that I must read you that they say I owe, that I spent three times that six thousand and two hundred dollars, plus I was in another nursing home, which was corrupt. I don't like cats, I want you to hear this clearly, but if I had a dead cat, and listen to me carefully, this is not a joke, I would not tell you to send it to Heartlands, which is located in Highfield. That is how decrepit this place is. However, I am not going into detail because we don't have the time, and I know that.

However, I am stripped of my six thousand and two hundred dollars per month for me, because what I went in with is not my fault. Kaiser is to blame for this. They inserted the IVs in me, which gave me swelling in this hand that infiltrated all the organs and went down to the left ankle, and not the right, and I'm paying the price. I should not have had to pay one red cent out of my pocket for something they gave me. I caught pneumonia in this place. I've never had pneumonia in all my years that I have lived. And I'm not too sure I'm over pneumonia completely yet, because I'm still bringing up dark green fluids. But now I have no doctor! Put yourself in my shoes. I have been under doctor's care for my heart since 1982; after I came back to DC to take care of my Mom, I came down with a heart problem. Now, the only thing that's in my favor is I have a very good doctor who I am able to get the heart medicine, which is seventy-four dollars just alone for the heart medicine, and like I said, it's running me some hundred dollars per month. I would like for the Congress to please look into this matter and give us seniors a break. Thank you very much.

SEN. DORGAN: Ms. Bryson, thank you very much. You have a lot to say that is very important, and I appreciate your willingness to come and share with us today. I think it will help you and others, and I appreciate you being here. Next, we will hear from Beverly Ingle, who's a school teacher from Cherry Creek District #5 from Colorado, a sixth grade teacher. Ms. Ingle, thank you very much, why don't you proceed.

MS. INGLE: First, I would like to thank the Democratic Policy Committee for asking me to speak here today. Again, I'm a sixth grade teacher, I teach social studies and reading at a grade school in Cherry Creek, Colorado. I've been teaching 24 years. And within that time, I'd like to give you a little bit of my background. I graduated from the University of Wisconsin, Steven's Point, with a bachelor's degree in elementary education as well as middle school. I took a fifth year program instead of a four year program so I that could teach in a middle school – so that was a 1-8 degree. I moved to in Colorado where I ended up, they just moved me to a K-6 because they didn't have middle school. I took tons of classes and then decided upon a major for my master's degree, which was diverse learners, see I'm working with middle schools and they are very diverse. Beyond that, I've taken sixty additional credit hours, and I'm here to tell you that because my sixth grade isn't in a middle school, I'm not highly qualified under ESEA and No Child Left Behind. I share this fact with the Committee just to show the law is not only under-funded, but it's inflexible and disruptive.

I would also like to extend greetings to the Committee from the President of the National Education Association, Reg Weaver, who has raised serious concerns with the proposed budget we're talking about today. I thought I would share with the Committee what a typical day is like for a teacher. My day starts at 6:45 a.m., with the students probably sleepwalking in at 7:15 a.m. I spend time with 120 students everyday in my classes and I probably have over a thousand teacher-student interactions during that day. It's a whirlwind of activities, to say the least.

The last school bell rings at 2:20 p.m., but that's not the end of my day. Like my fellow teachers, I know the meaning of "leave no child behind" – and I, like most of the teachers in my building, host a homework club after school, and I stay until the last child leaves. Now, we've had a few parents bring in dinners late about six o'clock when they really need to get that work done. But, I then head home and I start grading papers and it starts all over the next day. I can assure you that despite these long days, I love my job. And I would not trade it for anything in the world. When you see the light come on in the eyes of a student that finally gets something, maybe my economic principles, it's just so precious and that's why we do the job.

It's because I love my job that I'm here today. I'm concerned about the need for investments in our schools. The federal education budget, as proposed by the President for Fiscal Year 2004, has not grown at the same rate as inflation or student enrollment. That's a formula for failure. Despite the rhetoric and claims coming out of the Department of Education and the White House, the President's budget for No Child Left Behind programs will only increase 1.9 percent from Fiscal Year 2002 to Fiscal Year 2004.

Added to this, Colorado's state budget shortfall is over $800 million. A shortfall that, combined with the lack of federal funding for necessary education programs, will leave every student, every school, every district behind.

For example, in Colorado, the Republican state legislature is trying to make up the shortfall by pulling back on a statewide constitutional amendment that would have provided guaranteed funding for schools in the state at 1 percent plus inflation.

In addition to that, textbook money which is set aside in the state ended up being promised in the spring, we ordered the books, opened those boxes in the fall and what ended up happening is we were told in December that because of the shortfall, we won't get that money to pay for those books. That money will come from somewhere else.

In addition, Title I, the federal programs geared toward the most-needy students in our classrooms, is in serious trouble that is only going to get worse as the "No Child Left Behind" law is implemented and not adequately funded. The Bush Fiscal Year 2004 budget is more than six billion below the authorized levels for Title I in the No Child Left Behind Act. The invasive nature of the No Child Left Behind Act without adequate resources makes it an unfunded mandate of the worst kind.

In addition, I believe that most schools will not make AYP, or Adequate Yearly Progress, within the next couple of years, and that's because you have your state benchmarks that are set, and you have to make the AYP, or the Adequate Yearly Progress, not only as a school, but within the subsets. And one of those subsets is the Special Education students, which you're going to be dealing with in the reauthorization of the IDEA. This does not make sense as a classroom teacher, and every teacher I've spoken to in Colorado just kind of chuckles. A Special Ed student is a Special Ed student because they have a gap between their ability and their performance. And if you have that gap, you cannot be performing at grade level, so every school will be failing unless we do something about this.

Under the law, schools deemed "low performing" will be required to divert twenty percent of their funds from already scarce Title I funds into transportation services to other schools, for the implementation of choice provisions in NCLB as well as to implement the supplemental services provisions in NCLB. Those funds are currently being used to pay for teachers' salaries. Now add ten percent out of those funds for professional development, and that's left with 70% of the funds to meet the real needs of kids. Instead of having a full time teacher, you have a .7 teacher, and that face-to-face time is gone. And it's not where it needs to be in the high poverty schools.

The federal funding programs are being cut for safe and drug-free schools and after-school programs. They're cut by forty percent in the President's proposed budget, and they need to be restored. It's imperative to helping our students succeed. I'm here to tell you that as a teacher, I know how badly these kids need the after-school programs. Even in my school district, that has some areas with lots of funds, I see some kids wrapped in their coats, just sitting outside for hours waiting for a parent to pick them up. Now what if they were in a program that would help them learn?

I believe this budget shows mixed-up priorities – it proposes 1.5 trillion dollars more for tax cuts, but only 2.8 billion more for education – and cutting funding for these programs obviously leaves many children behind.

In closing, I would urge the policymakers in this room to remember that an investment in our children is not about sleight of hand. You can't take this dollar and say we're going to do something else with it and end up having a dollar that you can't spend because it's not real. I encourage you, as I do to my sixth grade students, to look at reality and to really be able to give us the funding that we need.

SEN. DORGAN: Ms. Ingle, thank you very much. We could use a few bills like that. I'm not sure quite how you did that, but thank you for showing it to us. You bring to life the day of a schoolteacher and the importance of what it means for our children and I appreciate that. Can I just ask a question? Where is Cherry Creek, Colorado?

MS. INGLE: It's really in Aurora, Denver, Inglewood, unincorporated Arapahoe County and the new city of Centennial.

SEN. DORGAN: Because when I was in graduate school in Colorado, I was a bank teller at Cherry Creek National Bank. I assume it's somewhere in that neighborhood. And I was never able to balance.

MS. INGLE: There's a creek, and there's a shopping mall, but you know…

SEN. DORGAN: Anyway, thank you very much for being here. The issue of education is of critical importance, I mean, it is our future. I think your testimony is extraordinary. We appreciate it very much. Michael O'Hanlon, of Brookings Institution. Mr. O'Hanlon is senior fellow in foreign policy studies at Brookings where you specialize in U.S. defense strategy, budgeting, military technology, and homeland security. Why don't you proceed?

MR. O'HANLON: Thank you senator. It's an honor to appear today with this distinguished panel; these are some really riveting stories, very powerful ones. And to testify before my new congressman, it's a great privilege. I'll be brief. I want to summarize a few key points from a Brookings study that a number of us have worked on over the last year. It was published last year, we're now updating it to reflect the President's homeland security strategy and new budget proposal. And a number of people worked on this, but I'll single out Peter Orszag as one of the others who did a fair amount of the work I'm going to talk about today with the budget. I just want to summarize a few key points because I realize that time is short. One is that we're generally impressed with a lot of the progress that has been made in the last sixteen and a half months, but we think it's slowed down in 2002. We think a lot of the work was done most effectively right after 9/11. You had work on airport security, a number of very quick remedial steps taken to call up the National Guard, to protect a fair amount of the country's infrastructure, nuclear power plants, a lot of remedial steps that would have prevented another attack like 9/11, or a lot of attacks of the type that al Qaeda had pursued in the past. Whether it was with truck bombs, or airplanes in this case, we did a pretty good job of getting ready to fight the last war, if you will, to defend against tactics that had already been visibly utilized by al Qaeda.

But we think progress slowed down in 2002, and especially in thinking about new kinds of attacks that al Qaeda hasn't yet shown an interest in. The one thing we should have learned from 9/11 is they're creative, and they're actually quite innovative and quite disciplined and quite good. We may have bought ourselves some time with the offensive in Afghanistan and the global law enforcement effort, but we are worried at Brookings that there are a lot of vulnerabilities in this country that have not yet been addressed partly because al Qaeda hasn't yet gone after these sorts of vulnerabilities or used certain kinds of tactics. And let me very quickly give you a couple of examples. I'm going to be brief.

Our overall proposal would entail about forty-five billion dollars a year in federal spending, so still a bit more than what the administration is asking for 2004, with its forty-one billion proposal, but more important than the top line is to give you a few examples of vulnerabilities that I think are not yet being addressed. The basic idea, the overall theme is not that we can stop each and every danger and eliminate each and every vulnerability in this country, it's obviously too large of a country, and we can't worry about each and every kind of possible attack, or we're going to have to turn the United States into a police state. But catastrophic terrorism that could kill thousands, or really fundamentally disrupt the economy, or the functioning of government and society, we have to worry about other ways in which al Qaeda might do this. Again, my quick examples and then I'll stop.

One is, in the broad area of private infrastructure, private property, whether it's big skyscrapers, whether it's chemical facilities, production plants for various kinds of chemicals, whether it's the trucking that carries around these chemicals, these things are not being adequately defended in the President's strategy or in his budget, there's just a couple hundred million dollars in the 2004 proposal for this kind of work. Eighty percent of our country's infrastructure is private sector infrastructure, and some of these properties present very inviting targets for terrorists. For example, a skyscraper with an air intake system near ground level is a very inviting way to spread anthrax in a way that could affect thousands of people. And many of our air intakes in this country remain unprotected and accessible to the general public. I'm not saying we have to put each one behind a Fort Knox equivalent, and there are very important questions of economics. How you do this sort of thing right, the government has to be careful about mandating too much.

Government needs to ensure a certain minimal level of regulation and then require these kinds of properties to be insured, allow the private sector and private insurance markets to give incentives for owners of these facilities to adopt better security practices. The administration has placed all of its faith essentially in the free market, assuming private sector owners will do these sorts of things essentially on their own. But the business of business is business, and making money – it's not homeland security. If you're an individual owner of a skyscraper or a chemical plant, you're worried about making a buck and beating out your competition, and you know that you yourself are very unlikely to be attacked, your individual property. So government has to view this as a public goods problem and try to push private owners in this direction.

Another example, I've mentioned before, chemical facilities. We produce all sorts of chemicals in this country, as you know. There are at least a couple of hundred chemical plants that are of a comparable level of potential lethality as nuclear power plants. These could be the Bhopal India sort of tragedy in the making. If terrorists were to get into these plants, and explode devices and spread chemicals to a nearby population center. There are a number of ways in which thousands or tens of thousands or even more casualties could result. But the government has essentially dropped the ball on private sector chemical facilities, and there was some effort in the Senate last year and elsewhere in the Congress to look into this, but the administration thwarted it. It's a major failing right now of the budget that requires again a public / private interaction. It may not be the sort of thing that the government is going to spend a lot of money to fix these chemical things on its own, but it needs to ensure a certain minimum level of protection through minimal regulation and then requiring people to have insurance and letting the insurance markets drive some of the improvements. So it's not all a question of the federal budget, but it is a question of federal attention to some of our unmet vulnerabilities.

Two more examples I'll just tick off, then, I promise, I will stop. A lot of the agencies that are being asked to do a lot for homeland security now are not funded adequately. One good example is customs. I admire greatly what Customs has done since 9/11. As you know, they have the container security initiative, which involves putting American officials overseas into ports where containers are being loaded to ship the goods to the United States. That's a much better place to look for explosives, to look for chemical agents, to look for other ways in which terrorists may try to attack us – Surface-to-Air Missiles that could be fired at airplanes, all sorts of things. That's where you want to look and see what's going on, and customs has the right idea. They're trying to put people overseas, into Canada, into parts of Europe, hopefully into parts of East Asia. But there's no money to expand Customs' effort and we're still only inspecting about three or four percent of all container traffic entering this country. It's simply not good enough.

We're wasting time, we have a short hiatus from attacks because we have done so well with the offensive operation in Afghanistan militarily, but al Qaeda is regrouping, we've all heard about the warnings in recent times that they may be trying to strike again, and a war against Saddam Hussein is certainly going to increase the risk in the short term.

And that leads me to my final point, which is we have to view the looming war with Iraq as a reason for urgent action on some of these fronts. And the idea that the 2003 budget for homeland security is still held up, it has been held up through January, this is unacceptable. Local responders need help. They need communications gear, they need protection against chemical and biological agents, they need training. And we need to do some of these things on a relatively urgent emergency sort of basis before we go to war against Saddam Hussein. The idea that the administration is doing such a good job dealing with that preparation for war, and I support the President very much in his efforts there, but is essentially ignoring, or under-planning any sense of urgency on the homeland security front at the same time, I think is a remarkable contradiction. It's a mistake, we've got to get on with this, and get on with it now.

SEN. DORGAN: Mr. O'Hanlon, thank you very much. In this panel, we've heard about healthcare, education, now homeland security, and it underscores the fact that the investments that we need to make in this country, some for protection, some for investment in our future with our children, some for help those who have reached the retirement period in life with less income and yet have increasing calls and needs for health care, it reminds us that there is a choice that we make in all of these areas: tax cuts, if so, what kind of tax cuts? Tax cuts for the very affluent; if so, at whose expense? Are we going to provide tax cuts for upper income folks and decide not to fund homeland security, or not to fund education? So all of these are choices.

And that's what budgeting is about, and that's why this period of the year is so important. The submission of a budget by the President, the debate by the American people in the Congress about developing a budget with the President's recommendation, deciding is this president right or wrong, are adjustments to be made. This is a critical period because this establishes the blueprint of who we are where we're headed, and what we think is important, so your testimony in my judgment is right on the mark. It's something that I've been very concerned about; the farther we get from 9/11, it seems to me the less urgent some people see this whole issue of homeland security. I think, I think it's very urgent, and I worry very much. You mention seaport security; we have 5.7 million containers coming into this country every year on container ships. One hundred thousand are inspected; 5.6 million are not. Everybody's worried about a terrorist getting an intercontinental ballistic missile coming in at 12,000 miles an hour, I'm worried about a container in a container ship coming into a dock at two miles an hour into one of the major cities in this country with a weapon of mass destruction. At any rate, the points you made are very important. Congressman Van Hollen.

REP. Van HOLLEN: (*unintelligible*) As the Senator said, our national budget reflects our priorities as a people, the decisions to be made (*unintelligible*) what's important and not important (*unintelligible*). You know, you get this big stack of documents, that there are a lot of numbers. But the fact of the matter is it comes down to how we decide to divide our national resources for the common good, and that's why it's so important that we look at what's in and how the President's budget was put together. And the fact of the matter is that we're talking about three very important areas where I don't think the needs of the American people are being met in this budget. In the area of health care, the President's budget does not provide the resources necessary. We've already heard about his proposed prescription drug plan, which requires people to choose, either you get to go see the doctor you want or you get prescription drug coverage, but you can't get both in his, because he hasn't provided the resources. In the area of education, it was just January 2002, he had a big signing ceremony at the White House for the Leave No Child Behind bill, and yet this budget doesn't provide the funds that were promised, it's over 6 billion dollars short from what was authorized. I think it's a terrible message to be sending to the children around this country, that the government's not keeping the promises that it made to them. And in the area of domestic security, you know, the challenge is huge, and you pointed out very, very well, I think, a number of shortcomings in this administration's approach to this.

And what's the tradeoff? As the Senator said, the tradeoff is that the President has decided that the priority of this nation at this very difficult time is to provide another huge tax cut that goes disproportionately to those people in the country who need help the least – the very, very wealthiest of Americans. Those are the trade-offs and I think the American people just want people to talk to them straight. And, you know, we have to be very careful that we watch what they do, and not what they say, because there is a lot of great rhetoric out there, but the fact of the matter is, we can't have it all. To have a tax cut that goes to the very wealthiest, it means we're shortchanging health care, we're shortchanging education, we're shortchanging homeland security and so I thank all three of you for being here to talk about these issues.

SEN. DORGAN: This is a big government of ours, and there is spending, there is investment, there is waste, and we ought to be concerned about all of it. There is in some areas of the government, wasteful spending, and we ought to be vigilant, we ought to be warriors to track down waste and get rid of it. We also ought to understand that all of us want the same thing: Republicans, Democrats, conservatives, liberals, we want this country to do well. We may have different visions about what to invest in that gets you the right return. But I think everyone wants the same thing for this country and its future. But at the moment, this budget process is about choices. What choices do you make? The choices we make will determine what kind of health care is available to those who have none, what we do to make sure that every American child walks through a school door that all of us can be proud of, what we do to protect this country.

I really think our budget needs to be a reflection of the things most families talk about around the supper table, and they're very simple: do we have a good job? Does it pay well? Do we have job security? Are we proud of the school we're sending our kids to? Do Grampa and Gramma have decent health care? Are we living in a safe neighborhood? You know, if you answer those questions for American families by making the right investments, then you've done something really good and really important for this country. That's what the American budget is about. That's what the federal budget is about.

I think this hearing has been very helpful once again to discuss varying viewpoints, different philosophies and all of that. The next two or three months will be very critical here at the House and the Senate and the White House to develop a budget that we think will move this country in the right direction, that will strengthen and improve this country. And I appreciate very much the testimony of the three of you. Because of time constraints, we do not have time for additional questions. I'm going to defer questions. Mr. O'Hanlon, thank you very much for being here today, and thanks for your work at the Brookings Institution. Ms. Ingle, thanks for being a school teacher. I go into a lot of classrooms, and I almost never leave a classroom without thinking what a wonderful, wonderful teacher and your students, I'm sure, are blessed for having you in the classroom. Ms. Bryson, thank you for sharing with us a story that's probably not easy to tell publicly.

MS. BRYSON: (*unintelligible*)

SEN. DORGAN: I'm glad I'm not an administrator of that nursing home but you've got both spunk and spirit.

MS. BRYSON: May I ask a question?

SEN. DORGAN: Of course.

MS. BRYSON: Why, within the nursing homes, is there one thing about we seniors, why is it, and how did it come about, that we have so many seniors who are afraid to talk? They'll talk to me, but they're not going to come before you and talk. I have been a fighter all my life, I can't help it.

SEN. DORGAN: The answer, I think, is that many of them think they are vulnerable. They've reached an age where they don't feel like they are able to make do for themselves. They've reaching declining income, declining health care… They feel vulnerable.

Your testimony, and I think your spirit and spunk, ought to be an inspiration to people. And what people ought to understand, in nursing homes and out of nursing homes, is you have a right to be a forceful advocate for yourself and for others, and your appearance here today does just exactly that.

MS. BRYSON: But I feel like I'm alone!

SEN. DORGAN: I think if you're on a mission, and I think you are, you're going to have recruits very, very soon. And I hope your appearance here will provide some recruits, so those who are watching and listening today, I hope they will join you. Thank you very much. This hearing is adjourned.