Budget-Lott/Hastert Letter

Congress of the United States

Washington, DC 20515

August 18, 1999

The Honorable William J. Clinton
The White House
1600 Pennsylvania Avenue, NW
Washington, D.C. 20500

Dear Mr. President:

As the summer weather heats up, so too has the recent debate over tax relief. Throughout the year, Congressional Republicans have shown our commitment to strengthening Social Security and Medicare, and reducing the national debt. We commend you for recently agreeing to support our Social Security lock-box plan. As you know, the lock-box will save the *entire* Social Security surplus to be used only for Social Security and Medicare. This will accomplish two of our shared goals: it will pay down the national debt until we have implemented plans to secure Social Security and Medicare for future generations.

In recent weeks, you have vowed to veto common-sense tax relief, claiming that this money should be spent on other priorities. You have implied that we ignore Social Security and Medicare, yet our plan reserves $2.2 trillion for Social Security and Medicare reform over the next decade. You have said that the surplus should be used to pay down the national debt, yet our plan reduces the national debt by over $2 trillion in the next ten years – even more than your plan. Mr. President, there is no honest reason to veto this common-sense tax relief legislation.

Even if you believe that working Americans do not deserve tax relief, surely you must agree with us that issues of basic tax fairness must be addressed. The current tax code unfairly levies extra taxes on millions of Americans just because they are married. This is unfair. Tens of millions of Americans are investing money in the stock market to help finance their retirement. While our government often extols the importance of savings, it then turns around and punishes these investors with the capital gains tax. This is unjust. Family farmers and small business owners are stung by the death tax. They pay taxes on their income and property throughout their lives, yet the government again taxes them when they die. The tax code makes it impossible for them to pass their farm or small business on to their children. This is un-American.

Mr. President, our tax bill addresses basic American principles of common sense and fairness. In addition to the aforementioned proposals, our bill also expands Roth IRAs, 401 (k)s and education IRAs. If you are serious about encouraging Americans to save, then surely you must support this legislation. Furthermore, this legislation extends many important research and development tax credits. These credits encourage American businesses to develop new technologies that will help them better compete in the global marketplace.

Too often, partisan squabbles center on who deserves credit for this budget surplus. But the truth is that the American people are the ones who created it, and it is they who deserve fairness and tax relief. We hope you will join us in delivering both.

Sincerely,

Trent Lott

Trent Lott
Senate Majority Leader

J. Dennis Hastert

J. Dennis Hastert
Speaker of the House

BUDGET -
Wallhaster letter

August 24, 1999

Dear Majority Leader:

Thank you for your recent letter discussing some of the major challenges facing America as we enter the next century.

Having gone from a $290 billion deficit in 1992 to a balanced budget and growing surpluses today, we have an historic opportunity to work together in a responsible way to pay off the national debt and strengthen Social Security and Medicare. It is essential that we maintain the fiscal discipline that has helped strengthen our economy, fuel record investment, and lower interest rates and mortgage payments for tens of millions of families.

The tax bill passed by Congress would reverse the fiscal discipline that has been so critical to making the American economy the strongest it has been in generations. The tax bill would spend 100 percent of the non-Social Security surplus. The tax and budget framework that you are asking the American people to endorse is by any standard untenable, and would require nearly 50 percent cuts in essential government functions, everything from education to air traffic control to the Federal Bureau of Investigation.

If you were unable or unwilling to make cuts of this magnitude, the clear and predictable consequence of such an untenable tax and budget plan would be to divert hundreds of billions of dollars of the Social Security surpluses from promised debt reduction, while providing no money for Medicare or Social Security solvency, and still requiring cuts in domestic priorities like education, healthcare, law enforcement, science and technology, the environment, and veterans programs.

You continue to minimize the likely consequences of your tax cut by including the implausible legislative assumption that the major provisions expire after nine years and virtually all of the provisions are repealed after ten years. This scenario would create uncertainty and confusion for taxpayers, and it is highly unlikely that it would ever be implemented. If the tax cut were continued, its problems would grow even more severe. The tax cut would cost about $2.7 trillion dollars between 2010 and 2019, just at the time when the baby boomers begin to retire, Medicare becomes insolvent, and Social Security comes under strain. If your tax cut became law, it would leave America permanently in debt.

These are the broad considerations that reinforce my decision to prevent this legislation from becoming law. It would also be irresponsible of me to sign legislation that, as written, would force an automatic cut of $41 billion in Medicare over 5 years and the eventual complete elimination of $19 billion in farm safety net programs.

Rather than break our fiscal discipline, we should work together to pay off our national debt, devise a bipartisan plan that modernizes Medicare with better quality, competition, and prescription drugs, while extending its solvency past 2025, and extend the solvency of Social Security. Once we have met these basic obligations, the budget I presented to Congress shows that we can still meet our long-term needs for military readiness, education and other critical programs, while leaving room for a $250 billion tax cut targeted to working families.

I look forward to working with the Congress in the coming months to put first things first -- by paying off the national debt, maintaining fiscal discipline, and meeting our fundamental challenges for the future.

Sincerely,

The Honorable Trent Lott
Majority Leader
United States Senate
Washington, D.C. 20510-1601

THE REPUBLICAN TAX AND BUDGET PLAN FORCES A STARK CHOICE: EITHER MAKE MASSIVE CUTS IN SPENDING OR DIVERT HUNDREDS OF BILLIONS OF DOLLARS OF THE SOCIAL SECURITY SURPLUS FROM DEBT REDUCTION

THE REPUBLICAN TAX CUT WOULD USE THE ENTIRE NON-SOCIAL SECURITY SURPLUS. This would force a stark choice between:

1. Making large cuts in military readiness and key bipartisan priorities like education and veterans programs and leaving Medicare unfunded; or

2. Spending hundreds of billions of dollars of the social security surplus that should be used for debt reduction.

THE REPUBLICAN TAX CUT WOULD USE THE ENTIRE NON-SOCIAL SECURITY SURPLUS (Billions of dollars over 10 years)	
Non-Social Security Surplus (CBO)	$996
Cost of the tax cut*	$854
Interest cost of the tax cut	$139
Remaining non-Social Security surplus, to fund bipartisan priorities such as Medicare, defense, education, agriculture, and veterans	$3

*Assumes that the full tax cut is continued after 2008.

WITH THE TAX CUT, IF THE REPUBLICANS WANT TO PROTECT THE SOCIAL SECURITY SURPLUS, THEN THEY WOULD BE FORCED TO CUT ALL DOMESTIC AND INTERNATIONAL SPENDING BY NEARLY HALF IN 2009 (assuming that defense is funded at the President's level). This could require cuts of nearly 50 percent in everything from air traffic safety to education to healthcare to veterans programs.

IF EVEN MODEST SPENDING ON BIPARTISAN PRIORITIES IS MAINTAINED, THEN THE REPUBLICAN TAX CUT WOULD SPEND OVER $800 BILLION FROM THE SOCIAL SECURITY SURPLUS. Under highly conservative assumptions, even with large discretionary spending cuts, the fully phased in Republican tax cut would leave the debt hundreds of billions of dollars higher than the President's plan. In fact, if the recent new spending and emergency bills passed by the Republican Congress and the repeal of the savings from the 1997 Balanced Budget Act requested by some Republicans are taken into account, the Republican tax plan could easily divert $1 trillion of the Social Security Surplus from debt reduction over the next decade.

POSSIBLE CONSEQUENCES OF THE REPUBLICAN TAX CUT ASSUMING MODEST SPENDING LEVELS (Billions of dollars over 10 years)	
Remaining non-Social Security surplus after tax cut (from above)	$3
Defense Spending at the President's request	$339
15 Percent Cut in Domestic and International Spending in 2009 (Spending at $40 billion below the President's request, which cuts non-defense spending by 13 percent in 2009)	$128
Medicare Funded at One Half of the President's Request would force tradeoffs between solvency, prescription drugs and modifying the 1997 Balanced Budget Act Reforms	$219
Interest Cost of this additional spending	$137
Net Reduction in Social Security Surplus and Debt Repayment	**-$821**

THE REPUBLICAN TAX CUT, IF CONTINUED AFTER 2009, WOULD LEAVE AMERICA PERMANENTLY IN DEBT. It is unrealistic to assume that the Republican tax cut will be reversed after 2009, especially since Congressional Republicans clearly intend these tax cuts to be permanent. If the tax cuts were continued:

- The tax bill would explode just when the baby boomers begin to retire, Medicare becomes insolvent (2015), and Social Security begins to come under strain.

- The cost between 2010 and 2019 would be $2.7 trillion, according to a preliminary analysis by the Treasury Department. The total cost, including lost interest savings, is over $4 trillion.

- The total cost over the 20 years between 2000 and 2019, including interest, would be about $5 trillion.

- The debt held by the public would never be eliminated.

THE PRESIDENT'S BUDGET ELIMINATES THE DEBT HELD BY THE PUBLIC BY 2015, WHILE PROVIDING FUNDS FOR KEY PRIORITIES. The President's tight but realistic budget for spending and prudent tax cuts still leaves room for substantial debt reduction.

- The President's budget reserves the entire Social Security surplus for Social Security and debt reduction, totaling $1.8 trillion over 10 years and $3.1 trillion over 15 years.

- Overall discretionary spending is kept slightly below inflation and non-defense discretionary is kept more than 10 percent below inflation by 2009.

- The President's Universal Savings Accounts provide tax relief to help families save for retirement; costing $250 billion over 10 years. This proposal would reduce taxes for the typical middle-income family by substantially more than the Republican tax bill.

- The President's budget allocates $46 billion to pay for a prescription drug benefit; the annual cost is about one-tenth of the benefits the fully phased-in Republican tax bill confers on the wealthiest 1 percent of families.

- These tight but realistic proposals leave $328 billion (30 percent) of the non-Social Security surplus for Medicare solvency and debt reduction over the next 10 years. Over 15 years, over $1.2 trillion (about 45 percent) of the non-Social Security surplus is dedicated to Medicare and Social Security solvency and debt reduction.