October 14, 2011

The Honorable Jeb Hensarling
Co-Chair
Joint Select Committee on Deficit Reduction
129 Cannon House Office Building
Washington, DC 20515

The Honorable Patty Murray
Co-Chair
Joint Select Committee on Deficit Reduction
448 Russell Senate Office Building
Washington, DC 20510

Dear Representative Hensarling and Senator Murray,

Pursuant to Section 401(b)(3)(A)(ii) of the Budget Control Act of 2011, we are writing today to transmit recommendations regarding economic growth and deficit reduction proposals within the jurisdiction of the Committee on Ways and Means. It is critical that the Joint Select Committee pursue a balanced approach to deficit reduction that includes significant revenues while also taking needed steps to encourage economic growth and job creation.

The Context for Deficit Reduction

It is vital that the work of the Joint Select Committee, and this Congress, be informed by a realistic assessment of the fiscal choices that led to our current deficits. As Senator Murray said at your first hearing, "We are tasked with tackling a problem that wasn't created overnight. That didn't come about just in the last few years. Our debt and deficit problems have a lengthy and complex history."

In 2001, the Congressional Budget Office (CBO) projected that the federal government would erase its debt by 2006, and that this year it would have an accumulated surplus of $2.3 trillion. As we all know, this did not come to pass. Debt held by the public currently stands at just over $10 trillion, $12 trillion higher than what was projected a decade ago. We cannot address our deficit and debt and stay on a fiscally responsible path without a clear appreciation of the policy choices that created the debt in the first place.

The reality is that the two policy choices that contributed the most to the increase in the federal debt compared to projections in 2001 are the wars in Iraq and Afghanistan and the 2001 and 2003 tax cuts.

An Urgent Need for Action on Jobs

Our economy has experienced a very deep recession and a financial crisis, which led to reduced federal revenue because people had less income and increased federal spending for vital safety net programs like unemployment insurance and food stamps.

When President Obama took office, he was facing a $1.5 trillion deficit and an economy that was losing 700,000 jobs per month. The then-Democratic majority in Congress and the President took needed action to stabilize the economy – and it worked. According to CBO, there were 1 to 4 million more full-time jobs in the economy during the second quarter of 2011 than would have been the case without the American Recovery and Reinvestment Act. Since the recovery began, the private sector has created more than 2 million private sector jobs.

We still have a long way to go before we make up the nearly nine million jobs destroyed by the financial crisis and recession, and we simply must do more to accelerate economic growth and job creation. As Representative Hensarling noted at your first hearing, "there are two crises facing our nation, not just a debt crisis, but a jobs crisis."

We believe the first vital step the Joint Select Committee can take to address the deficit is to adopt policies that will spur job creation and economic growth today.

The President has laid out a plan that economist Mark Zandi has estimated would add two percentage points to GDP growth next year, add 1.9 million jobs, and cut the unemployment rate by a percentage point. The American Jobs Act will:

- Provide tax relief to working families, giving a boost to consumer demand;
- Provide small businesses with payroll tax relief, continue their ability to write off new investments, and provide further tax relief if they hire new workers;
- Extend Unemployment Insurance programs to help those who have lost their job through no fault of their own, which CBO says is one of the most effective ways to support demand and bolster our economy;
- Provides all businesses with important incentives to invest and hire; and
- Help rebuild our nation's infrastructure to create jobs today and lay the foundation for future growth.

House Democrats have proposed a number of additional ideas to boost job creation as part of our Make it in America Agenda, including:

- The Building American Jobs Act, which contains a number of important infrastructure financing provisions, including the highly successful Build America Bond program that supported over $180 billion in infrastructure investment;
- Extension and expansion of provisions to support advanced energy manufacturing. This includes the Section 48C Advanced Energy Manufacturing Tax Credit, which has already led to more than $7 billion in investments in U.S. manufacturing facilities, and successful incentives to encourage the production of renewable energy and a transition to a clean transportation sector;
- The Currency Reform for Fair Trade Act, which would help ensure that U.S. manufacturers and other companies can compete on a level playing field.

The Joint Select Committee and Congress should act on these proposals immediately. The 14 million Americans who are still looking for work cannot afford to wait any longer.

Revenues Must Be Part of the Solution
In addition to taking action on jobs, the Joint Select Committee must take a balanced approach to deficit reduction that includes proposals to increase revenues. Federal receipts have averaged about 15 percent of the economy in the last three fiscal years, levels not seen since 1950. In the only five years in which the federal government ran a surplus in the post-World War II period, federal receipts averaged 20 percent of the economy.

We cannot address our deficit and debt through spending cuts alone.

The President has called on the Joint Select Committee to undertake tax reform that would increase revenues by $1.5 trillion over the next ten years, and has also put forward a set of specific revenue proposals that would achieve that goal if tax reform is not possible in this context.

Tax Reform
We believe that the important goal of tax reform is best served by working through the tax-writing committees in the House and Senate under regular order. Furthermore, a revenue-neutral tax reform would not help the Joint Select Committee meet the goal set for it by the Budget Control Act: deficit reduction. However, this does not mean the Joint Select Committee should not include proposals to address revenue in its work, merely that such proposals should represent a net increase in revenues.

In fact, whether taken on their own, or as a down payment on tax reform, proposals to increase revenue should be guided by the same principles as tax reform. We believe that these tax reform principles should be: Job Creation, Fairness and Fiscal Responsibility.

Job Creation
Our tax system is a vital component of our global competitiveness and the desirability of the United States as a place to do business. We agree that lowering the corporate income tax rate in a revenue-neutral way is an important goal, but the benefits of tax reform should be focused on those companies that are creating jobs here in the United States. With 14 million Americans looking for work, we need a tax system that encourages companies to invest, hire, and manufacture here in the United States, not one that rewards them for shipping jobs overseas.

In that context, we must fully understand the consequences of reform. Tax reform that broadens the base and lowers the rate risks eliminating important present-law incentives for domestic manufacturing and research, and actually increasing the tax burden on American manufacturing. In the corporate tax system, three of the largest tax expenditures are the Section 199 domestic manufacturing deduction, accelerated depreciation, and the R&D credit. Each of these provisions provides a direct incentive to invest and create jobs here in the United States. Eliminating them in order to lower rates across the board endangers precisely those industries that are in the best position to provide the good jobs that this country needs.

Fairness

Income inequality in the United States has reached levels not seen since the early 20th Century. The top 10 percent of earners took home nearly half of all income in this country in 2007, and the top 1 percent took home nearly one-fifth of all income. The top 10 percent of earners captured 88 percent of all income growth between 1976 and 2007, and the top 1 percent of earners received 58 percent of all income growth, even as middle-class incomes essentially stalled.

The President is right that deficit reduction needs to start with asking those who have done the best in the last years and decades to contribute a little more. The unfortunate reality is that middle-class families whose incomes have essentially been frozen simply cannot afford it, but the most affluent can. As such, allowing the upper-income 2001 and 2003 tax cuts to expire represents a fundamental step toward deficit reduction. The recent proposal considered by the Senate to impose a 5.6 percent surtax on income over a million dollars a year is one additional way to achieve this goal.

Further, any deficit reduction legislation should be consistent with the President's "Buffett Rule." It is simply not fair that some individuals making millions of dollars a year should have a lower tax rate than working families.

Fiscal Responsibility

Any tax reform proposal or down payment on tax reform considered by the Joint Select Committee should make a major contribution to deficit reduction. As noted above, federal revenues are at historic lows, and the President has called for $1.5 trillion in additional revenues over the next ten years.

We also urge the Joint Select Committee to exercise great caution regarding the integrity of the scorekeeping process. We understand that some Members have expressed an interest in so-called dynamic scoring and including the macroeconomic effects of legislation in official budget estimates. Existing practices for scoring both revenue and spending legislation are long-standing and widely understood to be impartial. A move to macro-dynamic scoring risks undermining both the accuracy and integrity of the scorekeeping process.

Safeguarding Basic Economic Security for All Americans

While the Congress must act to put the federal government on a sustainable fiscal path, we must do so in a way that preserves the institutions that have provided a level of basic economic security to millions of Americans and helped build the middle class. We cannot balance the budget by repealing the landmark achievements of the 20th Century.

Social Security

For generations, Social Security has been the cornerstone of retirement security for most Americans. Over its lifetime, Social Security has taken in $14.6 trillion while only spending $12 trillion (including administrative costs). And by law, Social Security may not borrow or run a deficit if the Trust Fund cannot finance benefit payments. Social Security did not contribute to the current deficit, and its Trust Fund will be able to pay 100 percent of the benefits it owes through at least 2036. Accordingly, any discussions on further extending the solvency of the program should not take place in a deficit reduction context.

Unemployment Insurance

Without Congressional action, the Federal unemployment insurance programs will begin to terminate at the end of the year – robbing over two million Americans of their unemployment benefits by the middle of February and over six million through 2012. Never in our Nation's history have we allowed a federally-funded emergency unemployment compensation program to expire when the unemployment rate was anywhere close to its current level of 9.1 percent.

We must not abandon jobless Americans as they desperately seek work in an economy that has over four unemployed workers for every available job.

Health

Our first priority in the health arena must be to protect Americans' health coverage and access to care, including existing coverage under Medicare, Medicaid and the expansions in the Affordable Care Act (ACA).

As a result of health care reform, 32 million previously uninsured Americans will have access to health care, while coverage will be more affordable and available for tens of millions of people with insurance today. One million more young adults are receiving coverage through their parents insurance, seniors are receiving drug discounts and soon constituents will no longer need to worry about losing their health care because of a pre-existing condition.

The ACA also included significant delivery and payment system reforms and other provisions that resulted in improved benefits for recipients and substantial savings to the Medicare program. These savings and reforms slowed the growth of per capita spending on Medicare and made significant progress in reducing the program's projected spending as a percentage of the economy. Given that private health insurance premiums have historically risen faster than per capita costs in the Medicare program, we must redouble our efforts to focus on measures that help contain the growth of costs in the underlying health sector.

We must build on the ACA and existing provisions in Medicare, to increase innovation, further reform the delivery and payment systems, and reduce costs in both the public and private sectors while protecting patients. Any new Medicare savings should first be used to strengthen the program by extending expiring provisions and by permanently reforming the physician payment system to ensure continued access to care. We must also remain vigilant in our efforts to eliminate waste, fraud and abuse where it exists and ensure that patients, employers and taxpayers get the most for their money.

Finally, costs are not reduced when they are simply shifted onto individuals or families, providers or the states. Such cost-shifts are not "reform." Indeed, ending Medicare, as proposed by the House Republican budget earlier this year, may reduce government spending, but the Congressional Budget Office said it would actually lead to higher overall health spending. In the same way, increasing the Medicare eligibility age may reduce Medicare spending, but outlays in other federal programs would increase, reducing the net savings to the federal government. This ill-advised proposal would also shift substantial costs to older Americans, employers and all individuals who participate in the health insurance exchanges formed under ACA. These changes would harm our nation's health care system and the millions of citizens that rely on it.

A Balanced Approach

Ultimately, the Joint Select Committee and the Congress must take a balanced approach if we are to truly address our deficit and debt. We must act to promote economic growth and job creation today. We must recognize that additional revenue is needed and that we cannot balance the budget through spending cuts alone. We must strengthen and extend Medicare and Social Security so they continue to provide bedrock economic, health and retirement security to current and future generations.

Sincerely,

Sandy Levin

Ranking Member Sander Levin
on behalf of Ways & Means Democrats