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United States Senate

COMMITTEE ON HEALTH, EDUCATION,
LABOR, AND PENSIONS

WASHINGTON, DC 20510-6300

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October 6, 2011

Senator Patty Murray
Co-Chair
Joint Select Committee on Deficit Reduction
824 Hart Senate Office Building
Washington, D.C. 20510

Representative Jeb Hensarling
Co-Chair
Joint Select Committee on Deficit Reduction
824 Hart Senate Office Building
Washington, DC 20510

Dear Senator Murray and Representative Hensarling:

We are at a pivotal moment in our nation's history, a time where we face an urgent challenge to address a jobs deficit and a lack of economic growth. For this reason, I urge members of the Joint Select Committee to embrace the unique opportunity you have been given to achieve historic success by taking bold and immediate action to create jobs, while at the same time taking steps, after the rate of unemployment is reduced, to address our long-term budget deficit.

Our country remains mired in the most severe period of joblessness since the Great Depression. According to the Bureau of Labor Statistics, over 25 million Americans are either out of work or working part-time due to an inability to find full-time employment. At the same time, recent data from the Census Bureau shows that the poverty rate reached its highest level in 18 years in 2010, at 15.1 percent. Over 20 million of the 26 million Americans living below the poverty line are in "deep poverty," with incomes less than half of the poverty threshold.

Adding to these immediate challenges is the reality that our economy has failed to work for the American middle class for decades. Over the last 40 years earnings did not budge in real terms, despite our workforce becoming more productive than ever. Union membership has plummeted, and secure, defined-benefit pensions are disappearing. The lion's share of our manufacturing base has been shipped overseas while large corporations have put shareholders' returns and

executives' salaries ahead of their workers' basic economic security. Income and wealth inequality have soared to levels not seen since the eve of the Great Depression.

Neither the financial crisis and ensuing recession, the long-term decline of the middle class, nor our budget deficit and national debt were the inevitable result of forces beyond our collective control. Instead, these outcomes were the product of a series of deliberate policy choices. For instance, despite running a \$236 billion surplus in 2000 and being on a path to pay down our national debt within a decade, subsequent tax cuts for the wealthiest Americans at a cost of \$1.7 trillion and two unpaid-for wars costing \$1.6 trillion erased our surplus and caused our national debt to skyrocket. In addition, deregulation of financial services caused our greatest economic downturn and dislocation since the Great Depression, which, because it resulted in higher federal outlays and lower tax receipts, further contributed to the federal deficit.

Accordingly, I believe the challenge facing all of us in Congress, including the members of the Joint Select Committee, is to reverse these flawed policy choices and put our economy back on a path to sustainable, widespread economic growth that will rebuild the middle class, while also reducing our deficit over the long-term. Right now, doing so requires using the resources of the Federal government to put America back to work.

As chairman of the U.S. Senate Health, Education, Labor and Pensions (HELP) Committee and the Appropriations Subcommittee on Labor, Health and Human Services, and Education (LHHS), I have a unique perspective on this challenge. In my dual capacities, I authorize and appropriate funds for programs that seek to ensure that our children are properly educated, help our nation stay healthy, support a properly trained and compensated workforce, and guarantee that our retirement system provides a secure future after a lifetime of work. In other words, these are programs that improve the productivity of our workforce, lift Americans from poverty, and grow the middle class.

For example, Pell Grants, one of the most significant mandatory spending programs in the HELP Committee, help to make college affordable for millions of Americans who might otherwise be burdened with crippling costs of student debt. In 1976, when the Pell Grant program was first fully funded, grants covered 72 percent of the cost of attendance of the average 4-year, public institution. However, the maximum Federal Pell Grant today covers only 34 percent of the comparable cost. Cutting the maximum award level or reducing student eligibility for Pell Grants could put a college education out of reach for millions of American families while harming the competitiveness of our nation over the long-term.

In addition to helping our children obtain higher education, the HELP Committee also seeks to ensure that our workforce is adequately trained. Not only do programs at the Departments of Labor and Education provide individuals with opportunities to gain the skills that they need to

fill current job openings, but they also ensure that our workers will be able to compete in industries of the future. For that reason, I recommend that the Joint Select Committee not cut funding for these important programs.

Protecting and promoting the health of our citizens is equally important to the success of our workforce. Not only does this help improve the quality of life and create a healthier workforce, it helps restrain the growth in private and public sector health care costs. The Affordable Care Act is the most comprehensive and humane reform of our health care system since Medicare. The law gives 94 percent of Americans access to affordable health coverage, protects consumers against insurance company abuses, makes unprecedented investments in prevention, wellness, and quality of care, aggressively controls runaway health care costs, and transforms the health care delivery system.

Even though this historic piece of legislation is now the law, I continue to fight hard for the gains we made, especially investments in prevention and wellness through the Prevention and Public Health Fund. The Prevention Fund supports evidence-based clinical and community prevention programs shown to cut down on chronic diseases that account for about 75 percent of the \$2 trillion that America spends on healthcare each year. For example, for every \$1 we spend on the full course of childhood vaccines, supported by the Fund, we save \$16.50 in future healthcare costs. The Prevention Fund is not only good for the physical health of our Nation, but for our fiscal wellbeing as well.

I strongly urge you not to target programs that serve as the foundation for these historic reforms, like the Prevention Fund, funding for states to build insurance exchanges, or cost sharing subsidies that allow the previously uninsured to purchase affordable coverage. According to the Congressional Budget Office (CBO), the Affordable Care Act will reduce the federal budget deficit by over \$210 billion over the next ten years and by more than \$1 trillion in the ten years after that. Now is not the time to dismantle this historic law by denying critical resources to these fledgling, but critical reforms that will save the Nation in the long term. These are important savings that we must protect.

In addition, the worker compensation and retirement benefits provided through agencies like the Railroad Retirement Board and the Department of Labor provide our workers with the confidence that they will not fall into poverty if they get hurt on the job, and with an assurance that their decades of hard-work will be rewarded with a safe and secure retirement. Breaking promises to American workers by cutting benefits that they have earned is not how a nation like ours should treat the people who perform some of the most difficult and dangerous jobs in our economy.

Nor is it responsible for a nation as rich in resources as ours to cut the programs that provide economic support to vulnerable populations, including persons with disabilities, infants, and low-income Americans. As a nation, we ought to be doing all we can to help lift these groups up, not make it even harder for them to get by through cuts to the programs that help ensure a basic standard of living.

As the lead Senate sponsor of the Americans with Disabilities Act (ADA), Public Law 101-336, I am particularly concerned that less than one-third of working-age Americans with disabilities are participating in the labor force. If we can find a way to boost the labor force participation of people with disabilities, we will accelerate the progress we have seen in the first two decades of ADA implementation. We can reduce our expenditures on entitlements like Supplemental Security Income and Social Security Disability Insurance that were designed at a time when we had lower expectations for our citizens with disabilities. I encourage you to protect the Federal government's critical role in supporting education and vocational rehabilitation for children and adults with disabilities, and look for ways to reform our large entitlement programs so that they more consistently support people with disabilities who want to work.

I do, however, understand that we need to find places we can reduce federal spending. This process was already begun by the Budget Control Act, which established 10-year caps on discretionary spending. These caps account for \$900 billion in savings associated with that Act and are in addition to the savings realized in the fiscal year 2011 appropriations process. The Act also achieved mandatory savings through changes in federal student loan programs.

Last year's LHHS appropriations bill, which I authored, eliminated 46 programs totaling more than \$1.3 billion. This year's bill went further, zeroing out another 15 programs totaling more than \$230 million and reducing funding for dozens of others. And in the HELP Committee, I believe that reasonable budget savings could be obtained by reducing the exclusivity period for biosimilars from 12 to seven years, which would save more than \$2 billion over the next 10 years, and by expanding the 340B drug pricing program to inpatient providers.

While the Budget Control Act already provided significant budget savings through changes in federal student loan programs, it would be possible to offer students with multiple loan servicers an incentive to convert their loans into the direct loan program. This would actually help borrowers minimize confusion by no longer having them deal with multiple servicers while also reducing their interest rate. Because it costs the Department of Education more to pay an outside lender to manage a student loan, the proposal results in savings to the government.

These and other policy choices like them will enable us to begin to address the spending side of our current policy challenge, but that is just one part of the equation. Many poor decisions have led us to this precipice and many wise ones will be necessary to lead us away. I have said in

many instances that what concerns me most is not the budget deficit – or even the jobs deficit per se – but the deficit of imagination that has taken over in Washington. I am disturbed by our failure to confront this current challenge with the boldness and vision that earlier generations of Americans summoned in times of national challenge. To address the challenges we face, your task is to reverse the flawed policy choices that led us down this path and help to build a 21st century economy by adopting an agenda that will make our nation more competitive, put us on a path to sustainable growth, and get our deficits under control. Below, I provide the Joint Select Committee with my thoughts on how to do so.

While neither the jobs nor budget deficits were created by the economic downturn, the recession and current period of slow growth have made both deficits worse by increasing government spending and decreasing tax revenue. In addition, high unemployment and slow growth depress economic output in future years, making it more difficult to grow our way out of high debt. For this reason, putting the 25 million unemployed Americans back to work would be one of the best forms of deficit reduction we could adopt.

To do so requires immediate investment in our nation's crumbling infrastructure, especially while borrowing costs remain low. According to the American Society of Civil Engineers, we face a \$2.2 trillion infrastructure deficit, which is undermining our safety and our competitiveness. At this time of high unemployment, investment in our schools, roads, bridges, train lines, transit systems, sewer and water systems, and the electric grid would put millions of Americans back to work. Investments in infrastructure are a particularly effective means of creating jobs and economic growth, with every dollar spent on infrastructure multiplying throughout the economy and, according to one independent analysis, creating \$1.60 in economic activity. In addition, the Congressional Budget Office views the output multiplier for infrastructure spending and government purchases of goods and service higher than any other broad category. Even better, these investments have the added effect of boosting the long-term productivity of our nation's private sector by making it easier and cheaper for companies to move ideas, products, and people across the country.

For this reason, at a minimum, I urge the Joint Select Committee to include provisions from President Obama's American Jobs Act as part of your recommendation, particularly as they relate to infrastructure building and education. Among other worthwhile investments in our infrastructure, the American Jobs Act creates a \$30 billion program to help repair more than 35,000 schools and community colleges across the country. A similar program in Iowa that I have supported throughout my career has had great success at creating jobs, stimulating local economies, and improving the learning environment for our children. In addition, the American Jobs Act includes \$35 billion to help prevent state and local governments from laying-off teachers, police officers, and firefighters. The American Jobs Act will support nearly 400,000 education jobs, preventing layoffs of educators and allowing thousands more to be hired or

rehired. I applaud the President for proposing these initiatives and I urge the Joint Select Committee to fund them at the highest possible levels.

To supplement these enhancements, we must do more to ensure that our workforce and products can compete globally. Policies that enhance the production of American made goods like “Buy American,” smarter trade agreements, and enforcement of current trade policies, supplemented with added investments in education and training, will help boost American manufacturing and the good jobs that come with it. Simply put, our nation will not continue to lead the world economy in the 21st century unless we restore our manufacturing base.

As a longtime champion of “pay as you go” budgeting, I understand that putting unlimited spending on the government credit card would be irresponsible. So to pay for these investments and pay down our debts, we have to bring our tax system in line with the realities of the 21st century. To do so, it is important that we allow the Bush era tax breaks for the wealthiest 10 percent of Americans to expire. These individuals did very well in the 1990s under the rates at that time and, given the national need, there is little choice other than unsustainable debt unless we return to those rates.

In addition, the Joint Select Committee should return the capital gains and dividends rates to their pre-Bush Administration levels. I believe it is clear that the capital gains rates of the 1990s did not reduce investment. It is simply unreasonable that the very wealthy pay a lower tax rate than their secretaries, largely through the lower tax rates for capital gains and dividends. I also believe that the estate tax should be restored to not less than the level it was at in 2009 along with the elimination of abusive loopholes that now allow substantial wealth to completely avoid taxation.

The Joint Select Committee should also seek out alternative sources of revenue. For example, a small tax on financial transactions would raise significant revenues while helping to discourage some of the speculative behavior that has made the financial sector even riskier. This proposal is receiving very serious attention in Europe.

There are also areas where I believe we should cut back government spending. For example, having achieved our primary objectives in Iraq and Afghanistan, we must bring to a rapid completion our involvement in those conflicts. We must also stop investing in outdated, Cold War-era weapons systems that continue to cost our nation billions. In addition, continuing to make direct payments to farmers solely based on what was grown on the land years ago, especially while they are enjoying economic success, does not make fiscal sense. Lastly, better contracting policies that reduce waste, fraud, and abuse can also save the government money.

With the extraordinary power with which it has been vested, the Joint Select Committee has the opportunity to take the steps needed to address the crises facing our nation. The mandate before the Joint Select Committee is simply to “reduce the deficit by at least \$1.5 trillion over the period of fiscal years 2012 to 2021.” To meet this challenge, the policy choices that the Joint Select Committee adopts ought to be focused on helping our economy grow its way out of the current economic slump by creating jobs, increasing the number of good jobs, and expanding the middle class, not cutting the resources that families need to send their children to college, pay their heating bills, and afford health care.

America remains the largest economic power the world has ever seen. We are not broke. We are not poor. We are the richest country in human history. We have the highest per capita income of any major nation. Solving our debt problems over the long-term should not prevent us from spending money in the short-term to create jobs and grow the economy. The immediate need to create jobs and strengthen the economy and the longer-term necessity of reducing our deficits are not mutually exclusive. If Congress is able to pursue a path that combines job creation in the short-term with deficit reduction in the long-term, we can confront the fiscal and economic challenges we face head on, restore the middle class, and return to an era in which prosperity is widely shared by all. Smart policy choices that use our resources to jumpstart the economy, train our workforce, grow the number of good paying jobs, and get our fiscal house in order are fully within your reach.

Thank you for your consideration of my views.

Sincerely,



Tom Harkin

Chairman

Senate Committee on Health, Education, Labor and Pensions