



PETER DEFAZIO

R E P O R T S

Congress of the United States
House of Representatives
June 2002

Dear Friend:

Thousands of Oregonians are pounding the pavement in a difficult search for a decent job. Many counties in Oregon have double-digit unemployment. In March, the national unemployment rate hit six percent, the highest in eight years. We need strong action to get our economy back on track. At the federal level, we need a broad-based stimulus package, with significant investments in vital infrastructure, common-sense tax policies, budget priorities and a new trade policy focused on putting Americans and Oregonians back to work (p. 2).

Last year, the President and a majority of my colleagues in Congress put on rose-colored glasses and passed big tax cuts, increased spending, and promised to protect the Social Security and Medicare trust funds in a lockbox, as well as eliminate the federal debt. Today, the so-called lockbox is empty, and the President has proposed cuts in education, student loans, infrastructure investment, veterans' health care, Medicare and more; and we're still stuck with a \$160 billion deficit (p. 3). We could stimulate the economy, safeguard those vital programs, and prevent a runaway deficit with a simple freeze in tax rates for those earning over \$373,000, estates worth \$5 million or more, and legislation to close some gaping corporate tax loopholes (p. 1).

There was an overwhelming response to my last newsletter and 15 town hall meetings on the future of Social Security. I will continue to push my legislation, HR 3315, to secure the future of Social Security without benefit cuts or a risky privatization experiment. I am also working to provide an affordable prescription drug benefit for all Americans, and will continue to battle against energy deregulation and the unstable, unreliable high-cost energy that comes with wholly-unregulated markets (p 4).

As always, if you want to express an opinion or need help with a federal agency, call, e-mail or write to the addresses listed on page 4.

Sincerely,

Big Business Meets the Bermuda Triangle

Tax season has painfully come and gone. While more than 88 million Americans dutifully sent their taxes to Uncle Sam, hundreds of large, profitable corporations dodged this patriotic obligation. These wily corporations have cooked up a new scheme that makes their tax burden almost vanish. It gives new meaning to the mysterious Bermuda Triangle.

By locating its headquarters (a filing cabinet in a lawyer's office) in Bermuda, a country with no income tax, and establishing its parent company in a tax haven like Barbados or Luxembourg (a post office box), publicly-traded U.S. companies can funnel profits (foreign and U.S.-earned) through their parent company to their Bermuda headquarters, tax-free.

Stanley Works, a formerly proud American tool manufacturing company, was the latest to join the offshore parade, and expects to reduce its tax bill by \$30 million this year. Bank of America Corp. cut its tax burden by \$418 million with this new ploy. In some cases, almost half of the tax savings will go to just one or two top corporate executives.

The epidemic of corporate tax dodging has resulted in a massive shift of the tax burden away from some large U.S. corporations, and foreign businesses with U.S. operations, on to average working Americans and small businesses.

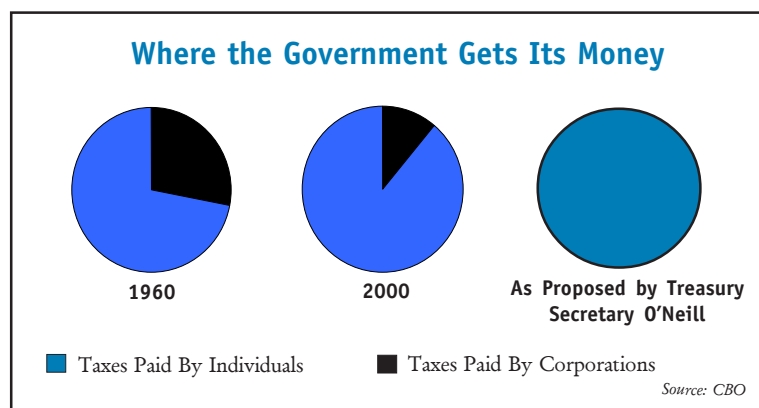
Citizens for Tax Justice found that 41 of the top 250 profitable U.S. corporations paid less than zero in federal income taxes in at least one year in the late 1990s. Fifty percent of the companies paid less than half of the statutory 35 percent corporate tax rate. When corporations don't pay their fair share, you and I have to make up the difference.

According to the Congressional Budget Office (CBO), as recently as 1960, corporate taxes accounted for more than 25 percent of all revenue taken in by the federal government. Today, corporate taxes account for only 10 percent of federal revenue, compared to an individual's share (including income taxes, payroll taxes, and excise taxes) which has risen to 85.6 percent of federal revenue. As a percentage of the economy, **corporate tax payments have plummeted to the second lowest level in the last 60 years.**

Some, including President Bush's Treasury Secretary, have called for the abolition of corporate taxes (see chart), under the

wrongheaded notion that corporations pass through all of their tax burden onto consumers via higher prices. As previous studies by the CBO and the Treasury Department have concluded, corporate taxes are borne primarily by the owners of capital, not by consumers.

I am a cosponsor of legislation, HR 3884, to stop this corporate tax shuffle, and will continue working to ensure a more equitable distribution of the tax burden by requiring profitable corporations to shoulder their fair share.



Kick-Starting the Economy

The insistence of so-called “experts” that the recession is over doesn’t resonate with Oregonians who are struggling with the highest unemployment rate in the nation.

I led the Oregon House delegation in a successful effort to get the Bush Administration to release nearly \$8 million in emergency worker assistance to Oregon,



Oregon needs \$3 billion to fix the state’s bridges. Rep. DeFazio joined an official from ODOT to inspect a failing I-5 bridge in Canyonville.

but those funds are just a drop in the bucket. Thousands more are on waiting lists for retraining, lay-offs continue, and workers are struggling to find jobs with decent pay and benefits. Budgets are tight and families are going thousands of dollars into debt just to get by.

The dismal economic situation has created an enormous debate in Washington between two groups—those who prefer to stimulate the economy by providing generous tax breaks for individuals who earn over \$373,000 a year and estates that are worth \$5 million or more; and others, like me, who think by investing in worker retraining and infrastructure, targeting tax cuts to working families, and providing expanded unemployment assistance we can help those most in need and get the economy back on track.

I drafted a stimulus plan that includes tax rebates for the hardest hit families, expanded unemployment and health care assistance, and funding to improve our nation’s aging roads, bridges, and school buildings.

Federal Investment in Infrastructure

As a senior member of the Transportation and Infrastructure Committee, I am working to fix our nation’s transportation and water infrastructure to help put people to work in the short-term and improve the productive capacity of our economy over the long-term. We have successfully restored \$4 billion in spending that was cut from the President’s budget (almost \$80 million for Oregon) in highway funding. I introduced legislation to invest \$20 billion in rebuilding and updating our crumbling water systems in towns like Albany, Lakeside and Port Orford. My bill, H.R. 3930, the Water Quality Financing Act of 2002, has already been approved by the House Transportation Committee. I am currently fighting to maintain federal dredging funds so our coastal ports remain open to recreation and commerce and our waters are safe and navigable.

An Educated Workforce

The demand for workers with a post-secondary education is growing rapidly, but the already high cost of college is keeping academically qualified low-income students from going to college.

The Administration recently proposed ending fixed-rate consolidations of federal student loans, which would saddle the almost 700,000 student borrowers with even more debt.

A well-educated, well-trained work force is important to ensuring our nation’s economic strength. I am supporting legislation, the Higher Education Assistance Improvement Act, to provide substantial increases in Federal student aid, double the maximum Pell Grant, double funding for programs like Perkins loans, TRIO and GEAR UP, and increase debt cancellation for students who enter public service. In the wealthiest nation on earth, every qualified student should be able to receive an education without going deep into debt.

Misguided Trade Policies

While the vast majority of Americans support shaping globalization in a way that promotes U.S. jobs, current U.S. trade policies have the opposite impact. According to the U.S. Business and Industry Council, U.S. trade policies have reduced our economic growth by 14.8 percent over the last decade, with the export of jobs and capital overseas and the burden of a huge and rising trade deficit.

Last year, the U.S. trade deficit reached a record \$435 billion. **According to the Economic Policy Institute, the U.S. lost 3 million jobs from 1994-2000, due to U.S. trade policies. Oregon lost more than 41,000 jobs, due mostly to the North American Free Trade Agreement (NAFTA).**

Last year, Ron Paul, a Texas Republican, and I led the effort to withdraw the U.S. from the World Trade Organization. We lost, but will continue

to fight job killing, anti-environment, anti-consumer trade practices.

In fact, as this newsletter went to press, we were gearing up to stop President Bush’s push for fast track trade authority to dramatically expand NAFTA to the entire Western Hemisphere.

Federal Reserve Missteps

The Federal Reserve and Alan Greenspan contributed to the current recession. The Federal Reserve, with arguably more power over the economy than the President and Congress, has acted in secret for too long, with no accountability for its actions or bookkeeping.

Beginning in the mid-1990s, the unemployment rate began to fall from 7 percent to under 4 percent, where it remained for an extended period of time with no signs of inflation. But the Fed, under pressure from big banks, decided to prematurely choke off the economy, and raised interest rates six times beginning in June 1999. Because rate increases take some time to work through the economy, the damage inflicted by the Fed wasn’t evident until late last year. At that point, the Fed recognized the error of its ways and cut interest rates 11 times. The cuts were a tacit admission that previous interest rate increases were an unjustified assault on worker’s wages, low unemployment, and strong economic growth. But it was too late.

I’ve drafted legislation to reign in the Fed and keep it from engineering recessions in the future. The Fed must be fully accountable to Congress, the President and the general public by making all its meetings public and opening its books to the scrutiny of independent auditors. Membership on the Fed’s decision-making body must be diversified and made more accountable to the public and the general business community rather than just the largest banks.

Retraining Displaced Workers

For more than a decade, I’ve refused large Congressional pay raises with the conviction that cuts to balance the budget should start at the top. After coming to Congress, I pledged to not take a pay raise until the federal budget was balanced, and linked my salary to the cost of living adjustments received by Social Security recipients. To date, I’ve turned back more than \$200,000. A portion of this has gone to the U.S. Treasury to help retire the national debt.



Peter DeFazio meets with scholarship recipients to discuss federal support for education.

What's Up at the Pentagon?

With the Pentagon budget rapidly accelerating past \$400 billion a year (which represents more than one of every two dollars Congress has the discretion to spend), taxpayers need to know what they are getting for their money.

Despite the \$100 billion-a-year increase in spending at the Pentagon, our young men and women in uniform still lack basic equipment, vital training, decent housing, and adequate pay. Over 13,000 military families are on food stamps.

The Pentagon's own auditors admit the military can't account for \$2.3 trillion in transactions. That means the Pentagon has misplaced \$8,000 for every American citizen. The Pentagon can't account for 25 percent of what it spends on an annual basis.

The Pentagon's books are so bad, they've never been able to pass the test of an independent audit. As a Republican Senator from Iowa, Charles Grassley, has said, "If the Pentagon does not know what it owns and spends, then how does the Pentagon know if it needs more money?"

That's a good question. Unfortunately, the President's proposed \$48 billion increase in military spending will allow the Pentagon to paper over its problems with our tax dollars.

The shoddy nature of the Pentagon's financial systems have been well documented for years. The Pentagon has procurement computer systems that can't communicate—automated purchasing programs

buy products at outrageous markups (\$400 hammers and toilet seats are not a thing of the past), and order replacement parts for weapons long retired. Recently, defense contractors voluntarily returned more than \$4.6 billion in overpayments made by the Pentagon.

Even when the Pentagon tracks its spending, too often it's buying weapons systems that are gold-plated, redundant, or irrelevant to national security.

Secretary of Defense Donald Rumsfeld came into office promising to transform our nation's military into a nimble, high-tech force designed to combat real threats to our national security rather than Cold War enemies. He promised to shake-up the military by canceling programs that were over-budget, behind schedule, or unnecessary. Unfortunately, these programs are still funded to the tune of tens of billions of dollars a year. Among the worst examples of waste are:

- Three nearly identical fighter jet programs that cost over \$360 billion, combined (the F-22, the Joint Strike Fighter, and the F-18E/F);
- An \$11 billion, 80-ton artillery system, the Crusader, that was designed to shell Soviet tanks invading Western Europe, but is too heavy and unreliable to use in today's conflicts. (The father of an Army artillery officer told me his son considered the Crusader a joke);
- The \$40 billion Comanche helicopter program. Two reports I requested from the General Accounting Office documented that the Comanche is way over-budget, behind schedule, and will be unable to perform its mission.

Broken Budget Promises

Less than 12 months ago the President and his allies in Congress promised we could have it all: a massive tax cut, spending increases, reductions in our national debt, protection of Social Security surpluses, and still have money left over.

Unfortunately, they based their budget and tax cuts on fantasy projections that \$5.6 trillion in surpluses would materialize over the next decade. As I pointed out at the time, a projected surplus is not the same as money in the bank.

Just 12 months later, \$5 trillion of the projected \$5.6 trillion surplus has evaporated. **The tax cut rushed through Congress and signed by the President in April 2001, depleted 43 percent of the promised surplus.** The recession is responsible for 30 percent, and increased spending in response to last fall's terrorist attacks will account for 17 percent of the surplus.

Last year, the Administration projected its budget would pay off the debt by 2008. This year, the President proposed adding hundreds of billions of dollars to the debt, causing \$1 trillion in additional interest payments over the next 10 years.

Last year, the President promised to protect Social Security and Medicare surpluses in a lockbox. This year, he proposed spending \$2 trillion in Social Security and Medicare money over 10 years, in order to preserve future tax cuts and fund other programs.

It is essential that Congress and the President safeguard the Social Security Trust Fund to pay benefits promised to future retirees. But the President's budget taps into the trust fund and almost assures a Social Security crisis in about 10 years.

During consideration of the federal budget resolution in the House, I offered a modest amendment to freeze a portion of last year's tax cuts for the wealthiest Americans. A whopping 97.5 percent of all taxpayers have no personal stake in the tax cuts I proposed to freeze. More than 95 percent of those tax cuts will go to individuals making more than \$373,000 a year (the top one percent of income earners) and estates over \$5 million. The average Oregonian, who makes \$30,000 annually and has a modest estate, would receive every penny of the tax cut they were

The ABM Treaty

The Anti-Ballistic Missile (ABM) Treaty has been a cornerstone of our international arms control policy for 30 years by limiting the threat of nuclear war and the proliferation of nuclear weapons.

Nonetheless, President Bush recently provided notice to Russia that the U.S. will withdraw from the treaty. It's likely that our withdrawal and rush to build and deploy the dubious \$100 billion Star Wars System will trigger a new arms race with China and other potential adversaries.

I have joined with other lawmakers as a plaintiff in a lawsuit challenging the President's decision to unilaterally withdraw from the ABM Treaty without congressional approval. There is legal precedent establishing Congress' constitutional role in treaty termination. I am fighting to protect that constitutional obligation and our national security.

While we must provide our troops with the equipment and resources they really need (including increased pay and benefits and improved housing) to protect the U.S. and carry out the military campaign against terrorism, that doesn't justify giving the Pentagon a blank check. It is even more important, in time of military conflict, that Congress demand fiscal accountability to ensure our nation is prepared to combat the gravest threats to our security without unnecessarily diverting funds from other essential programs.



Rep. DeFazio speaks to constituents about his plan for the future of Social Security at a Town Hall meeting in Albany.

promised last year. My amendment would have protected Social Security and Medicare, paid down debt, and preserved funding for critical programs.

Congress and the President should follow former President Reagan's example, and admit last year's tax cuts were not affordable. In 1981, President Reagan got Congress to pass a similar budget with large tax cuts and spending increases. Two years later, confronted with huge and growing deficits and the diversion of the Social Security Trust Fund, he supported a substantial roll-back of his tax cuts—especially those benefitting large corporations and the wealthy. President Bush and Congress should do the same.

Fighting for Affordable Prescription Drugs

I frequently hear from Oregonians who are forced to choose between filling their prescriptions or filling their grocery carts. At the same time, drug companies are posting record profits and fighting tooth and nail against lawmakers' efforts to make prescription medications affordable for all Americans. Prescription drugs represent the largest out-of-pocket health care expense for most Americans, especially seniors. Over half of America's seniors spend 10 percent or more of their income on pharmaceutical products. **Prescription drug prices are increasing nearly two-and-a-half times the rate of inflation and are projected to triple in the next 10 years!**

The pharmaceutical industry has consistently been the most profitable industry in the U. S. with profit margins nearly four times the average of other Fortune 500 companies. Executives at these companies have done well, too. In 2000, Pfizer's chairman took home \$40.2 million. Bristol-Myers Squibb's CEO had the highest amount of unexercised stock options, valued at \$227.9 million. With record-breaking profits and generous executive compensations, why haven't consumers benefitted, too?

Why are prices so high?

Drug companies argue that the cost of research and development is so high that any attempt to establish reasonable drug prices would squelch the incentive for innovation. Yet, drug companies spend two or three times more on marketing and management than they do on research and develop-

ment (R&D). They rake in profits that are nearly twice their R&D costs. In fact, a majority of the top selling drugs were developed using taxpayer funds at federal labs—eight out of the 10 most popular drugs produced by Bristol-Myers Squibb were developed at the National Institutes of Health. In 2000, I voted to reinstate a Reagan-era policy **that requires drug companies to offer their products developed with taxpayer funds at a reasonable price.**

Prescription drug discount cards

Much has been made of the discount cards being hawked by pharmaceutical companies. These cards can be useful if you're not part of a group purchasing plan, but they are clearly no substitute for comprehensive, affordable prescription drug coverage. In fact, the GAO, the auditing arm of Congress, recently released a study which found that discount cards saved consumers very little money, and in some cases, cost them more than filling their prescriptions at regular retail pharmacy prices.

Prescription drug plan for Medicare

With a rapidly aging population and soaring drug prices, Congress must act immediately to provide affordable prescription drug coverage for Medicare beneficiaries. I am cosponsoring the MEDS Act, H.R. 1512, which uses the buying power of Medicare to bring down drug prices, and covers 80 percent of beneficiaries' prescription drug costs, compared to other prescription drug plans that offer less than 50 percent coverage after large deductibles. Instead of

giving subsidies to pharmaceutical companies, like the House Republican plan, the MEDS Act uses the buying power of Medicare to negotiate drug price discounts of up to 80 percent, like the VA and large insurance companies.

Drug companies spend two or three times more on marketing and management than they do on R&D.

I am also supporting the Prescription Drug Fairness for Seniors Act, which **requires drug companies to end price discrimination and offer Medicare beneficiaries the same prices they offer their most favored customers.**

Drug Reimportation

Americans pay on average 174 percent more for the same drugs than do consumers in the rest of the world. Drug prices are so exorbitant that Americans are driving across the border to Canada and Mexico to fill their prescriptions at a fraction of the cost they pay at home. I'm supporting legislation, H.R. 698, to reduce the cost of prescription drugs between 30 and 50 percent for all Americans. It allows pharmacists, wholesalers and distributors to reimport FDA-approved prescription drugs from other countries at lower prices.

The Smoking Gun

More than \$30 billion have been drained from the economies of Oregon, Washington, and California because of electric rate hikes.

We finally have a smoking gun implicating Enron of gaming the market during the Western Energy crisis of 2000 and 2001. The recently released documents explain in detail how the powerful energy conglomerate manipulated electricity prices and gouged millions of ratepayers in the West, and confirmed my belief that we need to return to the affordable and reliable cost-based, regulated electricity system that functioned so well from the 1930s to the late 1990s.

Energy rates jumped by nearly 40 percent in Oregon



Rep. DeFazio visits the state capitol to oppose the lawmakers' decision to deregulate energy in Oregon.

after the energy fiasco, put thousands out of work, stretched household budgets, and hampered our economic recovery.

I've been fighting electricity deregulation for more than a decade. I was one of only 60 Members of the House to vote against wholesale deregulation in 1992. I introduced legislation, H.R. 264, to return to the mandate that generators serve the public and provide stable, affordable energy. In addition, I have been urging the Bush Administration to release \$600 million in emergency energy assistance to help struggling consumers pay last winter's sky-high electric bills.

Congressman Peter DeFazio wants to hear from you.

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