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Dedication

The Honorable Gerry Solomon
Member of Congress,
January 3, 1979 – January 3, 1999

The Honorable Floyd Spence
Member of Congress,
January 3, 1971 - August 16, 2001

In 2001, the Policy Committee lost two long-time Members and friends. United States Representatives Gerry Solomon and Floyd Spence served America in Congress for a combined half-century. Both dedicated their lives to protecting freedom with strong defense and limited government. Both were veterans of the armed forces. Both were active Policy Committee members. Both commanded the respect and admiration of their colleagues, on the Committee and throughout Congress. Both will be missed, but their dedication and devotion to the Policy Committee, the House of Representatives, and the United States of America are ideals to which current and future Policy Committee Members will always aspire.

Policy Statements

Trade Promotion Authority and American Prosperity

June 14, 2001

America's taxes on foreign imports are already near zero. But foreign taxes on the products of U.S. workers are often prohibitive—killing American jobs and opportunity. Cutting or eliminating foreign taxes on American exports is thus the key to expanding America's global economic leadership.

At home, trade expansion through lower foreign taxes will help increase economic growth, raise living standards through higher wages, and increase employment. Already, the growth in foreign markets is helping create jobs for Americans: one in three U.S. farm acres is planted for export. And 12 million American jobs have been generated by exports to the rest of the world.

In order to achieve meaningful reductions in foreign taxes on U.S. exports, the executive branch of our government must have the specific authority from Congress to negotiate trade agreements with other countries. This authority—known as Trade Promotion Authority—lets America speak with one voice, and achieve solid and binding results in international trade negotiations. It is the key to opening foreign markets to American farmers, workers, investors, and businesses.

Consistently, the Republican leadership of Congress—and Presidents of both parties—have supported this essential tool of American leadership and prosperity. Unfortunately, the President has been without Trade Promotion Authority since 1994. In the last Congress, the bipartisan consensus supporting trade expansion was destroyed when congressional Democrats succeeded in blocking an extension of Trade Promotion Authority to former President Clinton.

This year, Congress and the President will work together to restore the consensus for trade expansion and Trade Promotion Authority. The Republican leadership of Congress, which has consistently provided the critical support for both Trade Promotion Authority and a whole array of vital trade agreements such as the General Agreement on Tariffs and Trade, the North American Free Trade Agreement, and the African Growth and Opportunity Act, is determined to forge a bipartisan majority for Trade Promotion Authority.

Trade Promotion Authority is also one of President Bush's highest priorities. The President understands that the most prosperous periods in American history have been when free trade was expanding: from 1873 to World War I; the 1920s; the Reagan boom from 1983 to 1990; and the post-NAFTA and GATT prosperity that we now enjoy. By contrast,

protectionism in the 1930s contributed enormously to the spread and duration of the Great Depression, as it did to the decline of England from 1914 to the Thatcher era. Moreover, closed markets set the stage for the financial crisis of the late 1990's in Asia.

Free trade promotes sustained prosperity in a number of ways:

Controlling inflation. Keeping inflation in check has been a central pillar of America's economic growth, consumer confidence, and financial market strength. Free trade leads to more competitive businesses, more choices of goods, and lower prices for consumers.

Accelerating Innovation. Advances in high technology, and the productivity growth that high technology has helped bring about, are strongly encouraged by free trade. Free trade not only reinforces the discipline of competition and promotes the rise of efficient companies, but it also provides expanded markets for new products, thereby rewarding investment in innovative technologies, goods, and services.

Replacing Government with Markets. Worldwide deregulation is producing economic efficiency and opening markets around the globe. Nothing has given a greater boost to deregulation than free trade. Competition undermines inefficient state-run industries and has led to across-the-board deregulation in areas such as transportation, telecommunications, and financial services.

Reducing Conflict. Free trade can break down political divisions. European unity, unthinkable fifty years ago, is increasingly apparent as the Common Market matures. Historical rivals including Argentina and Chile, Japan and South Korea, and Russia and Turkey have built cooperative bilateral relations on a foundation of common economic interests. Trade expansion will encourage economic development, reduce poverty, and promote democratic principles throughout the world.

Giving America the Edge. Free trade opens up overseas markets to U.S. products and services where America has a comparative advantage over foreign producers: for example, in high tech, banking, insurance, intellectual property, entertainment, and a variety of manufactures. In this way, expanded trade will create and sustain millions of high-paying American jobs.

Trade Promotion Authority: The Key to Trade Expansion

Without Trade Promotion Authority, America will lose the opportunity for significant trade gains that would otherwise flow to U.S. workers and businesses. That opportunity will be seized by America's trade competitors. For example, the European Union has already concluded 27 preferential or special customs agreements with other countries, and is negotiating 15 more. For the first time ever in our own hemisphere, the EU has signed a free

trade agreement—with Mexico, our second-largest market. The EU is also aggressively seeking trade agreements with South American nations. Japan is negotiating a free trade agreement with Singapore, and is considering agreements with Mexico, Korea, and Chile. Overall, there are over 130 preferential trade agreements in the world today—and the United States is a party to only two of them.

Trade Promotion Authority does not mean that Congress gives *carte blanche* to the President and the Executive Branch. However, because our trading partners cannot negotiate separately with 535 Members of Congress, it is an essential prerequisite to winning meaningful international trade agreements. Just as labor contracts are negotiated between designated representatives, rather than among all union members and all members of the corporate board, so too the United States must speak with one voice in trade negotiations. And just as labor agreements are subject to the ultimate approval of both the union's membership and the company's board, so too each and every trade agreement negotiated under Trade Promotion Authority will continue to remain subject to congressional approval.

President Bush has stressed that he plans to take full advantage of the market-opening opportunities that present themselves in the coming years, while maintaining the closest possible consultation and collaboration with Congress. The President understands the essential executive-congressional partnership on trade, and will work with Members of Congress and congressional committees.

Long-term economic growth is a key element of stable, free, and democratic societies. The lapse of Trade Promotion Authority hurts American leadership in building a prosperous and free world as much as it injures our economic interests. Republicans in Congress will move quickly to reinstate the authority that has promoted free trade year after year, delivering significant progress from the Tokyo Round in 1979 to the Uruguay Round in 1994.

Trade Promotion Authority is the essential precondition for expanding America's export markets. It is time to reassert America's leadership in the world, and extend Trade Promotion Authority now.

Missile Defense and President Bush's New Strategic Framework

June 14, 2001

The United States is determined to proceed with Missile Defense. Two years ago, an overwhelming bipartisan majority in Congress and a Democratic president formally declared that it is the national policy of the United States to deploy an effective national missile defense as soon as technologically feasible. This national policy is enunciated in the National Missile Defense Act of 1999, and constitutes the law of the land today. As President Bush recently stated, "America must build effective missile defenses, based on the best available options, at the earliest possible date. Our missile defense must be designed to protect all 50 states—and our friends and allies and deployed forces overseas—from missile attacks by rogue nations, or accidental launches."

"A threat...here and now." Today the gravity and immediacy of the threat posed by missile proliferation can no longer be denied. It has been 10 years since Saddam Hussein dramatically illustrated the threat of ballistic missiles to U.S. forces in Saudi Arabia and civilian targets in Israel by launching Scud attacks during the Gulf War. It has been three years since the bipartisan Rumsfeld Commission issued its unanimous warning that future ballistic missile threats to the United States could emerge with "little or no warning." Just months after the Rumsfeld Commission report, North Korea launched a three-stage missile over Japan, and Iran launched its Shahab 3 ballistic missile. It has been over a year since the Clinton Administration's Director of Central Intelligence bluntly told Congress, "The missile threat to the United States ... is steadily emerging. The threat to U.S. interests and forces overseas is *here and now*" (emphasis added).

In February 2001, the Director of Central Intelligence updated his earlier warning. In his annual testimony to Congress on Worldwide Threats to the United States, he stated that "the missile and [weapons of mass destruction] proliferation problem continues to change in ways that make it harder to monitor and control, *increasing the risk of substantial surprise*" (emphasis added).

Today, long-range and theater missiles threaten U.S. forces and our allies around the world, yet we have no defense. Over 100,000 U.S. troops in South Korea and Japan live under the threat of ballistic missile attack. Our forward-based air and naval forces in Northeast Asia, the Mediterranean, and the Persian Gulf are likewise all vulnerable to missile attack. Key U.S. friends and allies including Israel, South Korea, Japan, and Taiwan all face known ballistic missile threats and lack any effective defense.

Moreover, as the Rumsfeld Commission predicted, the long-range missile threat to the United States itself has now arrived. Two years ago, North Korea tested a Taepo Dong-1

which can be configured as an ICBM to deliver nuclear-sized payloads to the United States. On June 4, 2001, North Korea threatened to resume both missile testing and its nuclear program. Iran, according to the CIA's most recent testimony, could test an ICBM capable of delivering a nuclear, chemical, or biological payload to the United States "in the next few years." The Director of Central Intelligence also testified that Saddam Hussein may acquire an ICBM capability in the current decade.

America and our allies are vulnerable not only to the launch of a ballistic missile at our territory or our troops, but also to the *threat* of such a launch. Unless we possess an adequate missile defense, the United States will be increasingly vulnerable to blackmail by both rogue states and terrorists.

A Safer Future. Fortunately, the means to counter these threats will soon be within reach. A series of missile defense tests during the preceding two years has resulted in the successful interception of an enemy missile by a ground-based system, as well as the development of even more promising boost-phase or ascent-phase defenses.

Critics have lodged a variety of conflicting and inconsistent complaints intended to prevent development of a defense against ballistic missiles. None of these arguments is persuasive, however, and together they virtually cancel one another out. The following is a compendium of the fallacies arrayed against a missile defense:

Fallacy #1: Test failures prove that missile defense doesn't work. To the contrary, much has been learned from the test successes, partial successes, and failures to date. Not only are imperfect tests of prototype systems inevitable in cutting-edge programs, but also many of the "failures" (that is, unsuccessful interceptions) have proven the efficacy of component technologies. As Defense Secretary Rumsfeld explained to the North Atlantic Assembly on June 7, 2001: "The Corona satellite program, which produced the first overhead reconnaissance satellites, had 11 straight test failures. Where would we be today if President Eisenhower had canceled it? Where would we be if the Wright brothers had quit after their first 20 test failures? Answer: without airplanes. Testing is how we learn. Testing leads to knowledge." Secretary Rumsfeld went on to state: "We will not make decisions on systems architecture until our technologies have been tested, and it is likely they will evolve over time."

Fallacy #2: Any defense could be overwhelmed by deception and other countermeasures. Countermeasures might well be undertaken by Russia, were missile defense aimed at it, but the goal of missile defense is not to defend against massive missile attacks from Russia. Rather, national missile defense is intended to counter limited threats from terrorists and rogue nations—"against handfuls of missiles, not hundreds," as Secretary Rumsfeld told our NATO allies. Moreover, as the House Armed Services Committee

reported in September 2000, the development of countermeasures entails “significant complexities for developing countries.” And even if Russia, the PRC, or other more sophisticated nations were to illicitly transfer the technology needed for countermeasures, developments in the U.S. already underway may well be adequate to address them. Countermeasures, for example, are much more difficult to deploy against ascent-phase missile defenses, and that is one of the architectures being developed. Over a year ago, Lt. Gen. John Costello, the head of the Army’s Space and Missile Defense Command, stated that “I am ... confident we have the technology to make the system adaptable to countermeasures.” According to the House Armed Services Committee, in their September 2000 report, the Department of Defense “has long been aware of the countermeasures issue and is working on ensuring the effectiveness of a national missile defense system against some two dozen types of countermeasures.”

***Fallacy #3:** A National Missile Defense would “decouple” American security from that of our European and Asian allies.* “Decoupling” America from our allies is precisely the reason that hostile states are currently seeking the ability to threaten our homeland. Deterring America from protecting our friends and allies abroad would achieve a true “decoupling” of our common security. The answer to these concerns, as the Bush Administration has recognized, is not to prolong common vulnerability but to achieve common security by extending missile defense to our friends and allies.

***Fallacy #4:** Missile defense would not combat other forms of attack on the United States; therefore, it should not be undertaken.* That other forms of terrorism will remain viable if we deploy an effective missile defense is hardly a reason to remain vulnerable to missile attack. Each threat to U.S. citizens should be met with an adequate defense. Who would assert that because our existing Army, Navy, Air Force, and Marine Corps are of limited use in thwarting a missile attack, we should forego them? Our armed services are justified by their usefulness against other existing threats. The Bush Administration and Congress are pursuing multifaceted defenses against the whole array of existing and emerging threats to our country—and missile defense is an indispensable part of that mix.

Alternatives to the MAD Doctrine of the Cold War. At the height of the Cold War, in 1972, the United States and Brezhnev’s USSR negotiated the Anti-Ballistic Missile Treaty, which *prohibited* missile defense in reliance on a doctrine called “Mutual Assured Destruction.” The MAD doctrine held that if both Russia and the Soviet Union were defenseless, then the threat of certain and massive retaliation would deter a first strike by either side. Whatever might have been said for this theory at the time, it requires a single nuclear threat posed by a rational nation in order to work. That has not described the world for at least a decade. The bipolar world of America vs. the Soviet Union has long since given

way to one characterized by emerging threats from many rogue states of questionable rationality.

Allowing not one but many potentially hostile regimes to gain a veto over America's ability to protect its troops, interests, and friends is itself "mad." In May 2001 President Bush highlighted the ABM Treaty's obsolescence in today's multipolar world: "We need a new framework that allows us to build missile defenses to counter the different threats of today's world. To do so, we must move beyond the constraints of the 30-year-old ABM Treaty. This treaty does not recognize the present or point us to the future. It enshrines the past."

Some critics have erroneously claimed that effective missile defense would "abrogate" the ABM Treaty. That is false; the United States would be acting entirely in conformity with the express provisions of the ABM Treaty were it to proceed with missile defense after giving six month's advance notice under Article XV of the Treaty. Article XV expressly provides that "Each Party shall, in exercising its national sovereignty, have the right to withdraw from this Treaty if it decides that extraordinary events related to the subject matter of this Treaty have jeopardized its supreme interests." Indeed, many eminent authorities—including former Secretary of State Henry Kissinger, who negotiated the ABM Treaty—have opined that the Treaty became invalid as a matter of international law upon the dissolution of the Soviet Union (the only other party to the Treaty) in 1991.

A further argument has been made that amending or ending the ABM Treaty would remove the "cornerstone of global stability" and kindle an arms race. This stands reality on its head, for the years since 1972 (the life of the ABM Treaty) have witnessed a buildup of nuclear weaponry and a dispersal of missiles and instruments of mass destruction unprecedented in the history of the world. Not only has the ABM Treaty failed to prevent the proliferation of missiles and nuclear weapons, but there is solid evidence that the lack of effective defenses against missile threats has provided a powerful motivation for nations to acquire their own offensive missile capacity. As Secretary Rumsfeld told the North Atlantic Assembly on June 7, "Our *lack* of defenses against ballistic missiles creates incentives for missile proliferation" (emphasis added). An effective missile defense, as Secretary Rumsfeld further stated, will "dissuade countries from pursuing dangerous capabilities in the first place."

A New Strategic Framework: Policy Recommendations

American policy should be based upon a reasoned approach to the modern world, not archaic doctrine. The following three approaches should guide America's implementation of the National Missile Defense Act of 1999:

Move Beyond 1972 and the Outdated ABM Treaty. Because the 1972 ABM Treaty no longer has relevance to the threats facing America in the 21st century, the United States should seek a new understanding with the Russian Federation that will permit our armed services to defend our people, territory, and soldiers. Failing this, the United States should proceed with the deployment of an effective missile defense, consistent with Article XV of the ABM Treaty.

Provide American Leadership for the Common Security of Our Allies. President Bush has already commenced genuine consultation with Russia, China, and our Asian and European allies and friends. These consultations reflect the fact that America's New Strategic Framework has moved beyond merely *national* missile defense to embrace an effective common defense for America, our forces overseas, and our friends and allies abroad. Increasingly, the nations of the world are appreciating that missile defense threatens no legitimate interest of any nation.

Promote Defense As the Best Deterrence. President Bush recently stated: "We need new concepts of deterrence that rely on both offensive and defensive forces.... Defenses can strengthen deterrence." Reliance on defensive measures not only strengthens the existing regimes of arms control and international cooperation, but also adapts U.S. policy to the realities of a world that has changed beyond recognition since 1972.

A Call for Bipartisanship in Defending America

Although Republicans have led the effort for missile defense, in the past this has been a bipartisan issue. In the wake of the Iraqi missile attacks during the Gulf War, President George H. W. Bush worked with bipartisan majorities of the then-Democratic Congress to achieve the Missile Defense Act of 1991, which made it a national goal to "deploy an anti-ballistic missile system ... that is capable of providing a highly effective defense of the United States against limited attacks of ballistic missiles." The National Missile Defense Act of 1999 was enacted by large, bipartisan majorities in Congress and signed into law by President Clinton. Over the past decade, Congresses and Presidents of both parties have come together to promote missile defense policies that will implement one of the bedrock commands of the Constitution: "to provide for the common defense." Unhappily, the new Democratic majority in the Senate appears to be attempting to walk away from this historic bipartisan consensus, and to keep the American people trapped in the logic of MAD and hostage to the "arms control" of Iraq's Saddam Hussein and North Korea's Kim Jong-Il. Now, more than ever, Republican leadership is necessary to carry out the national policy of missile defense upon which America's security, and that of all of our allies and friends, so depends.

The Defense of the United States

September 14, 2001

The pall of smoke has barely lifted around the World Trade Center and the Pentagon, but certain key elements of our response are already clear.

America can and must carry on—not “business as usual,” but rather as a clear sign that terrorists cannot set America's agenda. Even as we mourn the victims and pursue their murderers, America must also show the world that we are stronger than terrorism.

Although the strikes against New York and Washington are crimes against humanity, their punishment must be far more than a law-enforcement operation. Determining those responsible for these crimes requires the same kind of intelligence work used in complex criminal cases. But once responsibility has been determined, the United States should respond to them as what they are—acts of war against our free society, to be dealt with by all necessary means at our disposal.

Passive defenses against terrorism are a necessary part of a comprehensive response. Most importantly, we must proactively seek out and destroy the infrastructure of terrorism. The United States must redouble its efforts to strengthen our preventive measures against terrorism, including expanding our intelligence capabilities. In addition, and most importantly, we must proactively find and crush the whole support infrastructure of terrorism. As former Secretary of State Henry Kissinger wrote in the aftermath of the attacks, “the government should be charged with a systematic response that, one hopes, will end the way the attack on Pearl Harbor ended—with the destruction of the system that is responsible for it.”

There can be no distinction between those who execute terrorist acts and those who harbor or otherwise materially support them. As President Bush has promised, “we will make no distinction between the terrorists who committed these acts and those who harbor them.”

The civilized world must unite against terrorism. Civilized nations must show at least as much unity as the new International of criminal governments and terrorists. It is therefore appropriate that NATO, for the first time in its 52-year history, has voted to invoke Article V of its Charter—the core of the NATO alliance, which treats an attack on any one of the 19 member nations as an attack on all of them and allows for collective action by all of its members. Now the rest of the world must show the same solidarity. Countries that to date have been reluctant to stand with America against terrorism, either because of domestic politics or because of financial considerations, must now decide where they stand—with America and the civilized world, or with international terrorism. Many nations beyond NATO have already affirmed their support, and many more will in the days to come.

Terrorists and the governments that support them must not be allowed to threaten America with ballistic missiles, the ultimate terrorist weapon. The attacks on Washington and New York have confirmed our worst fears about the international terrorists who target America. They seek to inflict the maximum possible number of American deaths, including in particular innocent civilian deaths. They enjoy the cooperation not only of interlocking support groups but of foreign governments who share their deadly aims. They have largely inaccessible territorial bases. They have deep financial resources. They have a capacity for deception and secrecy that appears to have successfully blinded sophisticated American intelligence efforts that have specifically targeted their activities for over a decade. They have hitherto unsuspected sophistication, apparently including an ability to procure multiple trained pilots of large aircraft. And we know—to an absolute certainty—that they are avidly seeking the means to deliver the ultimate terrorist attack on America, an assault using weapons of mass destruction. Can anyone doubt that these groups and their state sponsors would give anything to procure and use the ultimate means of delivering such an attack—ballistic missiles? We cannot predict where and how terrorists and rogue states will next renew their assault on our country. We cannot even be certain which countries and groups will pose such threats in future. We can only be sure that terrorists and rogue states will seek out new methods and targets, and that only a robust defense against the full spectrum of known and emerging threats can give America any possibility of protection. Accordingly, the sterile attempt to pit one defensive program against another—to create a zero-sum competition between different threats—must cease. The answer to the spectrum of deadly threats facing us cannot be “either/or.” It must be “both/and.”

There is no place for partisanship in this struggle. Today, the United States is a nation at war. Already, we have sustained more casualties than we suffered at Pearl Harbor. We must come together as a nation behind the President in facing down this deadly threat. Just as two years ago an overwhelming bipartisan majority in Congress and a Democratic President formally declared that it is the national policy of the United States to deploy an effective national missile defense as soon as technologically feasible, we must come together again to protect the American people from the whole spectrum of threats that confront us, including both the threats of today and the rapidly-emerging threats of tomorrow. At every great crisis in our nation’s history we have come together as a people to meet the challenge. This crisis must call us together, as well.

A long struggle lies ahead. Years of effort and monies we would prefer to spend on peaceful pursuits will be required, and setbacks will be suffered. But as Franklin Roosevelt told the nation sixty years ago after Pearl Harbor, “No matter how long it may take us to overcome this premeditated aggression, the American people in their righteous might will win through to absolute victory. I believe I interpret the will of Congress and of the people when I

assert that we will not only defend ourselves to the uttermost, but will make very certain that this form of treachery shall never endanger us again.”

Permanent Tax Relief

October 11, 2001

New economic growth legislation should include *permanent* tax relief. On June 7, 2001, President Bush signed the Economic Growth and Tax Relief Reconciliation Act of 2001, which included provisions of six permanent tax relief bills approved by strong bipartisan House majorities.¹ Title IX of the Act, added by the Senate for procedural reasons, provides that no tax relief shall apply after December 31, 2010. Making this year's tax relief permanent is an important step Congress can take *today* to improve long-term economic growth—and a vital step toward a fairer tax system.

Helping Taxpayers by Repealing the Sunset

Retaining the sunset in new tax legislation would cause a multi-billion dollar tax increase that targets those who can least afford it. Under current law, the income tax rate for top earners will rise from 35% to 39.6% on January 1, 2011. Worse, on that same day, the rate paid by lower-income taxpayers would shoot up from 10% to 15%—a 50% tax increase on those who can least afford it. The child tax credit, another provision critical to many lower-income taxpayers, would be halved, from \$1,000 to \$500. The annual contribution limit on IRAs would plunge 60%, from \$5,000 to \$2,000. Parents and children would lose many of the benefits of Coverdell Education Savings Accounts and qualified tuition plans. Incentives for employer provided education assistance would disappear, while the marriage penalty would reappear. And the death tax—phased out by January 1, 2010—would return from the grave, fully re-grown to 2001 rates on January 1, 2011.

The sunset is confusing and frustrating taxpayers *today*. A *New York Times* columnist called the one-year repeal and immediate reinstatement of the death tax the “Throw Momma from the Train Act,” because the only way to create an effective estate plan is to die in 2010—the one and only year when the death tax is completely repealed. Parents planning a child's education are frustrated by tax law changes in the middle of the process. Provisions

¹. The six permanent tax relief bills approved by the House were:

- H.R. 3, the Economic Growth and Tax Relief Act of 2001, approved 230-198, March 8, 2001 (reducing five income tax brackets to four: 10%, 15%, 25%, and 33%)
- H.R. 6, the Marriage Penalty and Family Tax Relief Act, approved 282-144, March 29, 2001
- H.R. 8, the Death Tax Elimination Act of 2001, approved 274-154, April 4, 2001
- H.R. 10, the Comprehensive Retirement Security and Pension Reform Act, approved 407-24, May 2, 2001
- H.R. 586, the Fairness for Foster Care Families Act, approved 420-0, May 15, 2001 (treating payments from private and government foster care placement agencies equally)
- H.R. 622, the Hope for Children Act, approved 420-0, May 17, 2001 (expanding the adoption credit)

The Senate combined and amended the bills, which became Public Law 107-16.

meant to improve the economy and taxpayers' lives are instead complicating personal and government planning.

Taxpayers are enduring needless complexity as they attempt to plan their pensions, their retirement accounts, their small business succession, and their children's education. On July 26, 2001, the House Policy Committee met with representatives of millions of taxpayers, senior citizens, small business entrepreneurs, employers, tax policy experts, and budget experts concerned about the pernicious effects of the sunset. All found it impossible to establish a logical policy rationale for making the Economic Growth Act temporary. The policy chaos caused by the sunset makes taxpayer planning more difficult and expensive.

Even those who do not pay taxes suffer from the sunset. Small businesses subject to a full-strength death tax in 2011 will be unable to protect the jobs of workers when the founder dies. Sole proprietors worried about succession planning will be reluctant to expand their businesses because unless they die before 2011, marginal rates in excess of 50% will permit the IRS to confiscate more than half of the added value. And all Americans lose because the effects of the sunset include reduced employment and investment, lower wages, limited economic growth, and therefore less federal revenue.

Boosting Economic Growth and Federal Revenue

Congress did not consider the effect of economic growth on revenue in passing this year's Economic Growth Act. The Staff Director of the Joint Committee on Taxation reported to the Policy Committee that the Joint Committee did not calculate the growth effect of lower tax rates in the Act—notwithstanding the clear intent of Congress manifested in the legislation's title. Nor did the Joint Committee calculate the reduction in growth caused by making the act temporary, notwithstanding empirical evidence that higher tax rates limit growth and revenue, while lower tax rates boost growth and revenue.

Sunsets impair the growth Congress intends to create with economic growth legislation. Twenty years ago, on a foggy morning at his Santa Barbara ranch, President Ronald Reagan sat at a rustic leather-covered table and signed into law the Economic Recovery Act, which included permanent tax relief reducing the maximum personal income tax rate from 70% to 50% and reducing the tax rate on savings and investment (capital gains) from 50% to 20%. Five years later, he signed legislation lowering rates again, reducing the income tax to just two brackets, 15% and 28%.

Since President Reagan's landmark rate reductions, employment, wages, and productivity soared. Only the July 1990-March 1991 recession—starting about the time that *The New York Times* first warned on July 12, 1990 that Congress and the Administration were considering raising the 28% rate to 31%—interrupted the longest sustained economic boom in

American history. In the past two decades, lower tax rates and the resulting economic growth helped kill record inflation. The lower interest rates that followed made homeownership affordable for millions of Americans. Federal tax revenue more than tripled, financing America's Cold War victory over the Soviet Empire and, for good measure, freeing a billion people from totalitarianism.

The U.S. tax rate structure has resulted in tax collections growing far faster than the economy itself. The tax burden on Americans today is five percent higher than when President Reagan signed the Economic Recovery Act into law. Federal revenue is at a record peacetime high, accounting for 21% of the economy, compared to 17.6% in 1993. This flood of revenue and huge surpluses emboldened Congress to spend far in excess of the 1997 budget caps. This large a slice of the economy hasn't been taken by the federal government except for one other year in history.

Today, thanks to record economic and revenue growth, we approach the new challenges of the 21st century with an economy and a nation incomparably stronger than at the outset of World War II. Instead of a decade-long Great Depression, the economic preface to the War on Terrorism is two decades of Great Expansion. Notwithstanding emergency spending, the federal surplus remains larger than anyone predicted when America adopted President Reagan's permanent tax relief. However, economic challenges continue. Social Security must be restructured to ensure its long-term solvency and Medicare requires new resources for prescription drug benefits. Most immediately, a larger tax base will make the War on Terrorism more affordable.

Permanently relieving today's record tax burden will help reverse the slump in industrial production, manufacturing, and trade sales that began last fall. The year 2000 saw 401(k) retirement funds losing money for the first time in their 20-year history. At a bipartisan Congressional economic briefing September 20, economists noted that private sector GDP turned negative in first quarter 2001. Business investment in equipment and software turned negative in fourth quarter 2000. Venture capitalists are investing less than half the amount they did last year to finance new employment and technical innovation and billions of dollars in investment capital have been shifted from high-return to low-return accounts—meaning it is being put to less productive and efficient use. The National Association of Realtors reports that in the one major sector that remained strong well into 2001, housing starts were down 7% from July to August; home sales plunged 50-70% in the days after September 11, and remain down 10% from previous levels; and home inventories are up despite cheaper mortgages. "From the middle of 2000 to the middle of this year," *The New York Times* reports, "the economy grew [at] the slowest 12-month pace in nearly 10 years."

The Federal Reserve is testing the limits of monetary policy. Dr. Lawrence Lindsey, formerly a Federal Reserve Governor and House Congressional Policy Advisory Board member—and today the Assistant to the President for Economic Policy—warned about the danger of relying on monetary policy to offset the heavy fiscal burden on the economy 30 months ago. “Macroeconomic policy is placing an excessive reliance on monetary policy to sustain the current economic expansion,” Dr. Lindsey told the Senate Budget Committee, January 20, 1999. His prescient concern manifested itself in negative market reaction to discount rate cuts on May 15, June 27, and August 21, 2001. Nor could the September 17, 2001, cut stave off record one-day dollar losses.

Monetary policy—less permanent than fiscal policy—is incapable of supporting the economic growth necessary to raise adequate government revenue. As Federal Reserve Chairman Alan Greenspan and Joint Economic Committee Chairman Jim Saxton have noted, Republican success at retiring federal debt will eventually have the ironic consequence of making monetary policy less effective by reducing the flexibility of open market operations. The current edition of *The Economist* reports that “excess capacity and the heavy debt burdens of firms and households,” along with falling confidence, could limit the effect on demand of declining interest rates. These facts make permanent *fiscal* policy for economic growth a vital necessity.

To remain the leader of the free world, the United States must promote economic growth at home through a policy of tax rate moderation. Not only taxpayers, but all Americans and people throughout the world will benefit from permanently moderate tax rates with more jobs, higher wages, lower prices, greater economic opportunity—and more federal revenue.

The Solution

Repealing the current tax relief sunset and avoiding sunsets in the future will help ensure the economic growth necessary to sustain a victory in the War on Terrorism. Introduced by Reps. Kenny Hulshof (R-MO) and Paul Ryan (R-WI), H.R. 2316 strikes Title IX, the so-called “sunset” provision, from the Economic Growth and Tax Relief Reconciliation Act, making the tax law changes in the Act permanent. The House made its will obvious by making all of its original tax relief legislation permanent. More than 40 Senators have already agreed to sponsor legislation to end the sunset in the Senate. It is the policy of the House Majority to promote the objective of H.R. 2316, ensuring that economic growth and taxpayer fairness become *permanent* features of U.S. law.

Preserving our Ability to Fight

November 8, 2001

As September 11 and its aftermath are reminding us, the primary responsibility of the federal government is to protect the nation's security. Supporting our military, intelligence, and homeland defense is and always should be our first priority. Rapid, unsustainable increases in non-defense spending threaten our ability to protect American citizens and to respond to future threats.

Government Is Displacing the Private Sector

Since 1990, the U.S. economy has grown by 70%. But during that same time, the federal government's tax collections from the private sector have increased 96%. As the growth of government has outstripped the growth of the economy that supports it, the federal government has in effect been displacing the private sector.

Today, the federal government consumes \$2 trillion annually, almost double what it consumed in 1990. Most of this growth in the federal government occurred during the Clinton administration. Whereas Presidents Reagan and Bush held real non-defense discretionary spending constant in real terms over 12 years, under Bill Clinton, the money spigots were opened. Just during Clinton's first two years in office, federal non-defense spending grew by 10%.

When America ended the 40-year one-party rule of Democrats in Congress in 1994, the new majority succeeded temporarily in slowing the growth of spending. Indeed, in its first year, the new Republican majority not only slowed the growth of domestic discretionary spending, but actually *cut* it. Despite those efforts, however, the Clinton administration notoriously vetoed Congressional money bills that it said did not contain *enough* spending, and blamed Congress for the resultant government shutdown. As a result of the Clinton push for higher spending, non-defense discretionary spending exploded by 16% during the last three years of the Clinton administration.

The new Bush administration has attempted to return to a policy of controlling the growth of spending. President Bush's initial 10-year budget provided for growth in government, but at a modest average annual rate of 3.8%. Even before September 11, however, the Washington spending crowd was resisting this fiscal discipline, and pressuring for more spending. Since the attacks that launched the War on Terrorism, the spending floodgates have opened.

The immediate initiatives taken by Congress following September 11 were vital to the national interest: disaster relief efforts in New York, Virginia, and Pennsylvania; emergency funding for health and law enforcement services; life support for the airline industry in the aftermath of the attacks; and public health measures against the recent anthrax attacks.

But a host of new and increased spending has been proposed that is not remotely germane to the War on Terrorism. A potpourri of proposals—from bigger loan subsidies for shipbuilders, to new school construction, to expanded unemployment benefits, to more highway funding—has been advanced as a faux “response” in this time of crisis. Most recently, the Democratic Senate has used the present crisis to increase non-terrorist related spending by more than \$4 billion. Such opportunism is not merely disingenuous; by draining limited resources from our highest priorities, it jeopardizes our security.

Every new spending program represents taxes not spent to support our military and homeland defense. At the same time, every new program places new and greater tax burdens on the working men and women of America, at a time when we should be promoting economic growth. This makes it doubly wasteful. Worst of all, the insidious effects of runaway spending are often permanent: because each new program is automatically built into future budgets, the increased spending inflates the “baseline” budget from which *further* increases are then measured.

Time to Review Spending Priorities

Instead of responding to September 11 with an orgy of undisciplined break-the-bank spending, now is the time for Congress to carefully review recent budget trends, and take action to ensure that our nation is on a fiscally responsible course that meets the new challenges and threats of the 21st century.

Today, the majority of government spending is not even appropriated by Congress. Instead, mandates in existing law have put over two-thirds of our budget on autopilot. This so-called “mandatory” spending represents an abdication of the federal government’s responsibility to allocate resources based on current information and new challenges.

During the administration of President John F. Kennedy, defense spending accounted for 50% of all federal spending. “Mandatory” spending consumed less than one third of the total. By 2001, however, defense spending has shrunk to just 16% of federal spending. So-called “mandatory” spending, on the other hand, now consumes *two-thirds* of total spending.

It is essential that Congress re-assert control over the federal budget, because mandatory spending is projected to consume an even larger share of the total in coming years. Failure to act will contribute to the long-standing shift in federal priorities *away* from national defense and homeland security.

Likewise, as Congress begins to develop the framework of next year's budget, one-time expenditures related to the current crisis should not be used as an excuse to permanently increase the size and the scope of the Federal government.

Lower Tax Rates, Not Higher Spending, Needed

Today, our economy is suffering from a significant slowdown. Businesses are reducing their capital investment and laying off workers. America's economic policies must provide incentives to rehire workers and expand job opportunities, and get the country's economy moving again.

By moderating income tax rates as well as reducing the so-called "capital gains" tax on savings and investment, we can offset some of the higher costs on workers and firms that have resulted from September 11. High tax rates on work and investment discourage the very activities that make the economy grow. What's more, they are counterproductive: by slowing the growth of the economy, they reduce the tax base, decreasing government revenue.

Eliminating the alternative minimum tax and reforming depreciation rules will likewise increase incentives to work and invest. These responsible tax law changes will both rejuvenate the economy immediately, and encourage long-term growth. By expanding the economy, we will put our country—and our government—in a better position to meet the challenges of both today and tomorrow.

The Path to a Stronger United States of America

In order to preserve our government's ability to respond to future challenges and threats, we must control government spending and encourage economic growth. Congress should take action today, while there is still time.

Above all, Congress should control the growth of spending. Instead of creating costly new programs and subsidies that will increase taxes on the American people and risk a return to deficits, Congress should strictly enforce budgetary constraints and ensure that "mandatory" spending does not overwhelm our federal budget. All so-called "mandatory" programs should undergo regular review; many should be given sunsets. And Congress should, as the President has requested, moderate tax rates to encourage economic growth and protect government revenues in the wake of the terrorist attacks.

We cannot foresee the future. We do not know today the threats and challenges that will confront us tomorrow. But with prudent action today, we can ensure that our national government will be strong enough to win the War on Terrorism, and flexible enough to respond to any new challenge.

Election 2000: A Call to Action

November 29, 2001

The 2000 presidential election was a source of controversy. Voters were astounded by weeks of constant, intense election coverage following election night. They had a broad array of things to be concerned about, including outdated voting machines and procedures, potentially confusing ballots, allegations of ballot tampering and biased reporting, disenfranchisement, and unethical practices to garner votes. But the election highlighted a central fact upon which everyone can agree: the election process in many parts of the country must be reformed.

House Administration Committee Principles

Congress must resist the urge to federalize what is constitutionally the prerogative of states and localities. Federal mandates, intervention, and regulations are not an appropriate exercise of federal authority. Congress should empower the duly elected state and local officials, not dictate to them.

Congress must examine ways to eliminate vote fraud. The days of the “cemetery vote” and other “ghost” voting must end. Ethical elections should be the goal of every elected official.

Congress must address disenfranchisement. Minorities and those residing in economically disadvantaged communities should have the same access to reliable voting machines as other citizens. Also, intentional disqualification of the ballots of those who serve in the military is an atrocious affront to our brave service men and women who risk their lives daily. “One person, one vote” is a principle that crosses all party lines.

Voting Equipment Modernization

Elections are run at the state and local levels, with most ballot casting and counting occurring at the county or parish level under state supervision. Since the 2000 presidential election, nearly every state has examined its own method of voting. Wisely, states have realized that reforms are needed in their election processes, and have acted. Congress should keep the hard work of these legislatures in mind as it works toward election reform, and assist, not undermine, their efforts.

First, the federal government should carefully and fairly fund the adoption of improved voting methods for those that choose to upgrade. States and localities should not be required to purchase or lease expensive new machines, but additional funding should be made

available to those that choose to do so. States and localities seeking federal financial assistance should meet certain conditions:

- The new methods must be reliable and resistant to fraud or sabotage.
- States should take aggressive measures to ensure accuracy in the voter rolls, which helps eliminate fraud.
- Congress should reject voting methods or machines that allow a printout or readout of an individual voter's completed ballot. Voters have an absolute right to the secret ballot.
- When purchasing new equipment, states and localities should make voting machines accessible for the visually impaired and people with disabilities.

Second, the positive role of the Office of Election Administration, which collects data and provides standards for technology to states, should be strengthened. The Office of Election Administration (OEA), currently located at the Federal Election Commission, should be adequately funded. The Federal Voting Machines Standards Commission should update its 1990 standards, with regular updates thereafter. The OEA can help monitor and provide the link between individual states and the federal government to track and promote reform.

Protections against Vote Fraud

Vote fraud is a frontal assault on representative government. The principles of self-rule are undermined by fraudulent or unscrupulous behavior. While auditing its voter rolls, Michigan encountered one million duplicate registrations out of approximately nine million registered voters. Los Angeles County audited its rolls, and estimated that 25% of all registrations have problems or incorrect information.

For actual votes, both privacy and accuracy concerns are important. However, in terms of voter registration, accuracy is paramount. Accurate voter rolls will help address allegations of disenfranchisement by those who attempt to vote, but are unable to do so because of inaccuracies.

To help make voter rolls more accurate, the National Voter Registration Act of 1993, also known as "Motor Voter," must be refined. When Motor Voter was being considered, supporters argued that it would increase voter registration (a goal everyone supports), which would in turn increase voter participation (another laudable goal). To date, however, there has been little or no progress in these areas. The U.S. Census Bureau reports that three million registered voters did not vote because of registration problems, some of which were created by Motor Voter.

Congress should move forward to eliminate opportunities for abuse under Motor Voter so that clean elections are a primary goal of the law. These reforms include:

- A limit on how long a registered voter who does not vote can be kept on the voter rolls.
- Protections to ensure the integrity of mail-in registration, including the use of information from Postal Service change-in-address forms.
- A compromise to ensure that no coercion occurs at public assistance offices regarding party registration.
- A provision to allow states to require proof of citizenship upon request, and measures to ensure that only U.S. citizens are registered.
- Making voter registration information available in public assistance offices, public schools and libraries, fishing and hunting license offices, post offices and revenue offices, and marriage license bureaus.
- Repeal of weakened penalties for public corruption.
- Special protections against vote fraud when same-day registration and voting is permitted.

A Uniquely Federal Responsibility: Military Voting

The controversy surrounding the 2000 election exposed a situation that should concern every American—the documented and systematic attempt by certain trial lawyers and political operatives to disqualify the absentee votes of our Armed Services personnel serving overseas. Americans were rightly appalled by these efforts.

Because overseas military personnel are residents of a state, but serve the nation collectively in remote and sometimes mobile locations around the world, they typically must vote by absentee ballots. The current patchwork of state laws for requesting and receiving absentee ballots is cumbersome, and can be particularly problematic for our military personnel stationed overseas. Therefore, the unique role of the federal government should be carefully asserted in this area.

Congress should immediately strengthen and clarify the Federal Uniformed and Overseas Absentee Voting Act to make it easier for military personnel to receive, cast, and have their ballots counted. Congress should direct the Defense Department to carefully consider electronic voting for overseas uniformed personnel. The Department should also examine the potential role of “Unit Voting Assistance Officers,” or some other form of temporary designation officers, to assist all military personnel in exercising their voting rights.

Sadly, reforms passed by the House regarding military voting have been blocked by members of the Senate in the recent past. Republicans must insist that reforms to protect the voting rights of military personnel are a necessary part of any election reform bill. If a man or

woman in the military or his or her family made a good faith effort to vote, then that vote deserves to be counted. Overseas Armed Service personnel and their families make plenty of sacrifices. Their votes should not be one of them.

The Media Projection Problem

Another problem highlighted by the 2000 election is the issue of networks prematurely “calling” or awarding a state to a particular candidate. This occurred before the polls in a particular state had closed (Florida) and before sufficient data was obtained to determine the winner with anything near certainty in several other close states (Iowa, New Mexico, Oregon, and Wisconsin). As virtually the sole source of information on election night, television networks have a responsibility to report the facts in a clear, correct and unbiased manner.

The reasons cited for the media’s poor performance on election night included the use of only one source of data for election information (Voter News Service), hyper-competition between the networks to release data first, little hard scrutiny of its data before its release, and insufficient standards for data. Recommendations for improvement are extensive and varied. However, there is a consensus on some core ideas:

- Voter News Service (VNS) has determined that it must study and improve its data collection and verification procedures. The networks that jointly fund and own VNS strongly support this proactive move.
- Networks should, and have stated they would, not announce a winner of any state until all polling locations in that particular state are closed.
- Networks should agree to use hard data from actual returns to verify other sources. More resources on the ground in states and more extensive and sophisticated data interpretation must be used in the future.
- The outrage felt by voters last November was made far worse by a lack of full understanding of how elections actually transpire. Therefore, as a civic matter, networks have agreed to run more stories at election time about how votes are counted, how the Electoral College works, and how the mechanics of an election proceed.
- A national poll closing time for federal elections enjoys less consensus, but clearly deserves continuing thought and attention. At this time, each of the major networks has endorsed the creation of a national poll closing time for federal elections, stating that this change would address concerns that election night coverage beginning in the East affects turnout in the West. Congress should examine carefully any effects this change might have on voter turnout and weigh whether this idea is consistent with the traditional role of states in running their own elections.

Conclusion

Ensuring fair and honest elections by reducing fraud, improving voting techniques, eliminating disenfranchisement, and respecting the constitutional role of states and localities should not be partisan or controversial issues.

The fundamental system, which has been in place since our nation's beginning, from the First Amendment to our basic system of elections, is sound. However, as with all things, periodic and regular improvements can and should be made to the mechanics of democracy to continue and build upon our collective faith in it. We have seen these principles work. It is our highest calling to ensure that they continue to do so.

Policy Perspectives

Tax Relief for Economic Growth

October 11, 2001

The September 11 attacks were aimed at destroying the spirit of the American people, and the strength of the world's leading free market economy.

Economists, policymakers, and President George W. Bush agree that we must address this attack on our economy by providing pro-growth tax relief. Relief through the tax system will have immediate effects and help ensure that the U.S. economy remains the most productive and innovative in the world.

Acting now will help the millions of American workers who have lost jobs or family income as a result of the attacks. These hard-working men and women don't want to join the welfare rolls; they want their jobs, their sales, their customers, and their livelihoods back. Tax relief that makes hiring workers more affordable and investment more profitable is the most effective means to wage the war on terrorism on the economic front.

Step 1: Accelerate Income Tax Relief

Making the income tax rate reductions in the Economic Growth and Tax Relief Reconciliation Act of 2001 effective immediately—instead of slowly phasing them in, as Congress planned during better times—will create immediate and sustainable economic growth.

Increasing take-home pay will put money in workers' pockets, helping them to buy more and to increase their savings. Unlike a one-time payment, which offers no incentive for more work or investment, lower income tax rates will encourage people to work harder and be more productive. Unlike the pseudo-stimulus of a one-time measure, tax rate relief will not only stimulate immediate consumption, but also provide permanent incentives

The currently scheduled "sunset" for tax relief must also be repealed. It was never part of an economic plan to begin with, but rather a procedural technicality. It now looms as an enormous, pre-scheduled tax increase that falls heaviest on those who can least afford it. The "sunset" is inhibiting economic growth by making household economic planning difficult, and business investment more risky. Not only must income tax rate relief be accelerated, it must be made permanent as well.

Step 2: Reduce Taxes on Investment

Investment in new technology and other machinery soared during the 1990s, helping to increase productivity and fuel economic growth. But in the past year, business investment in new capital all but dried up—a principal cause of the economic slowdown. Then September 11 hit, and much of the country's economy ground to a halt.

Reducing taxes on new investment will help reverse that trend. One of the most effective ways to do this is to eliminate the unfairness in current depreciation rules, which prevent subtracting legitimate business expenses from sales.

The tax code should not discourage firms from making investments that will boost their productivity. These same investments will also help the firms' suppliers, their suppliers' employees, and even federal, state, and local governments—since the purchase of new equipment is taxable. But under today's IRS rulings, the cost of purchasing equipment doesn't count as an expense for tax purposes. Instead, "depreciation" can take years. In many cases (such as computers and software), the depreciation period is far longer than the useful life of the equipment. Allowing taxpayers to deduct new equipment as a business expense would help the economy immediately, spur hiring, increase output, and enhance productivity.

Step 3: Eliminate the 'Alternative Minimum Tax'

The "Alternative Minimum Tax" (AMT) is a complicated and egregiously unfair provision of the Internal Revenue Code that imposes "income" tax even when a business has no income. Its onerous burden falls on employers, employees, and consumers alike. In the current economic downturn, a firm that experiences real economic losses cannot eliminate or reduce their income tax liability. Legitimate business expenses and capital losses are disallowed under the AMT, forcing financially strapped firms to shoulder an unbearably heavier federal tax burden.

The AMT is also administratively burdensome. Even businesses not liable for the tax must incur the time and expense of extra paperwork and additional calculations, just to determine whether the AMT even applies to them. Nor can this unfair tax be justified as an important federal revenue source: it currently raises only two-tenths of one percent of federal revenues. Moreover, even this paltry amount does not include any recognition of the increased tax revenue that would be generated by repeal of the AMT.

Abolishing this cumbersome, unnecessary, and grossly unfair tax will help every participant in our economy focus on what they do best: serving their customers, hiring workers, and expanding their markets.

Step 4: Reduce the Penalty Tax on Savings and Investment

Savings and investment are the lifeblood of the economy. When individuals and firms invest, businesses grow, create new products, hire more workers, and expand production. This is what makes economic growth possible.

The so-called “capital gains” tax is really a penalty tax on savings and investment. It is very often levied against after-tax income that is deposited in savings or invested for the future—and thus it constitutes double taxation. Because it is not adjusted for inflation, it often taxes “gains” when there are none. And because it applies *only* to income from savings and investment, it discriminates against the very behavior that will most help to grow the economy.

For these reasons, Federal Reserve Chairman Alan Greenspan has called the capital gains tax “counterproductive,” and has repeatedly testified before Congress that the best capital gains tax rate would be zero. After every previous reduction in the capital gains tax rate in the last quarter century, the stock market has performed better, and government revenue has increased, as individuals and firms pay taxes on the assets that they sell and reinvest, although at a lower rate. Our most recent experience with cutting the capital gains rate in 1997 showed this effect quite dramatically.

Effects of Changes in Capital Gains Tax Rates—1993-2000



Reducing the capital gains tax rate will encourage savings and investment, create jobs, make our economy stronger, increase federal revenue, and sustain long-term growth.

Conclusion

These four tax reforms will help the American economy in the short term by increasing take-home pay, encouraging work, savings, and investment, and stimulating business to immediately hire new workers. They will also improve our long-term economic prospects by providing permanent, stable, and predictable tax policy for the indefinite future. The values of entrepreneurship and hard work that have made America's economy the strongest in the world are worth reasserting in the wake of the September 11 attacks. These tax law changes will do just that.

Terrorism Risk Protection Act Makes Insurance More Affordable and Speeds Victim Compensation

November 29, 2001

The House will vote today on H.R. 3357, the Terrorism Risk Protection Act—a measure essential to America’s economic security. As Members of both parties have repeatedly pointed out, this bill does not “bail out” insurance companies: insurers would remain profitable absent this legislation, simply by refusing to insure against acts of terrorism or by charging prohibitive premiums for such insurance. Rather, this legislation protects every other sector of the economy—every non-insurance worker and employer—by providing a temporary legislative backstop that will make it possible for American companies to gain the insurance they need to continue operating in the post-September 11 environment.

One of the most vital elements in ensuring the continued availability and affordability of terrorism risk insurance is a package of common-sense liability reforms to streamline the compensation process for victims, maximize recoveries for the most serious injuries, protect blameless American taxpayers from unlimited liability, and limit the damage to the American economy from future acts of terrorism.

This legislation accomplishes these goals with reforms similar to those recently enacted by Congress in two bipartisan bills, the Aviation Security Act adopted on November 16, 2001 and the Air Transportation Safety and System Stabilization Act adopted on September 20, 2001. The Terrorism Risk Protection Act also includes reforms adopted years ago in the Federal Tort Claims Act to establish fair rules when federal taxpayers may be financially responsible for court awards.

Unlike the two recent antiterrorism bills, however, the Terrorism Risk Protection Act provides for *unlimited* compensation for economic damages like death, injury, medical expenses, and property damage—the most critical losses caused by terrorism.

H.R. 3357 Contains Badly-Needed Legal Reforms

Specifically, the bill’s provisions:

- Create a new federal cause of action for claims arising out of acts of terrorism. Although heard in federal court, such claims would continue to be decided under the pre-existing laws of the state in which the act of terrorism occurred (except to the extent that these laws are inconsistent with other provisions of this Act).
- Establish a “fair share” rule for non-economic damages like pain and suffering. Parties would be liable for such non-economic damages in direct proportion to their own

responsibility for them. Parties who are in any way responsible, however, remain liable for *all* economic damages like death, injury, medical expenses, and property damage: a party who was 1% responsible for damages arising from a terrorist incident would remain 100% responsible for compensating *all* such economic damages, no matter how extensive.

- Prevent double recoveries by requiring the courts to take account of other compensation received for the same damages (so-called “collateral source” compensation).
- Help ensure that sufficient funds will remain available to compensate the most serious losses like death and physical injury by allowing punitive damages to be assessed only against terrorists.
- Help maximize compensation for victims by providing for judicial review of attorneys fees, subject to an upper limit of 20% of the recovery.

None of these reforms limits the liability of actual terrorists.

Why H.R. 3357 is Necessary

Just as limited legal reforms were integral to the two earlier responses to terrorism that Congress has already passed since September 11, the legal reforms in H.R. 3357 are essential to making terrorism risk insurance available and affordable, limiting unjustified taxpayer liability, and expediting and enhancing compensation of victims. Here’s why:

Without these reforms, federal taxpayers who are in no way responsible for acts of terrorism would be on the hook for *unlimited* noneconomic and punitive damages assessed against non-terrorist defendants—parties who are not responsible for the sort of vicious, premeditated attacks that took place on September 11.

Moreover, any attempt to limit these protections to insurers would merely shift and magnify the terrorism risk borne by insureds. Although the entire purpose of this legislation is to facilitate the availability of terrorism risk insurance for insureds, such a limitation—far from promoting the availability of insurance—would instead actually *codify* its unavailability.

Further, the sort of catastrophic terrorist acts that this legislation addresses will, like the September 11 attack, strain the full resources of the federal government, insured defendants, and insurers simply to compensate the most fundamental injuries, like medical expenses and destruction of property. Without these reforms, the legal system would allow plaintiffs to further recover unlimited non-economic and punitive damages against any party, no matter how marginal their responsibility or how much the plaintiff had already received from other sources in compensation for the same injuries—all subject, of course, to unlimited

attorneys fees unsupervised by the courts, and unrelated to the amount of effort or risk undertaken by the attorney.

Such a system would randomly and grossly overcompensate some plaintiffs who won the “race to the courthouse,” thereby exhausting the fund of public and private monies available for compensation before other victims had been compensated for the most basic losses, like the death or permanent maiming of a family breadwinner. Such a system would pit victim against victim, promote overreaching by unscrupulous attorneys, and impose on top of already horrific costs inflicted by terrorism a whole range of crushing litigation expenses.

That is why some observers have described efforts to strip these provisions from this economic rescue legislation as “piracy on a hospital ship,” and why bipartisan majorities in both houses of Congress overwhelmingly passed similar reforms twice since September 11 as part of vital antiterrorist legislation.

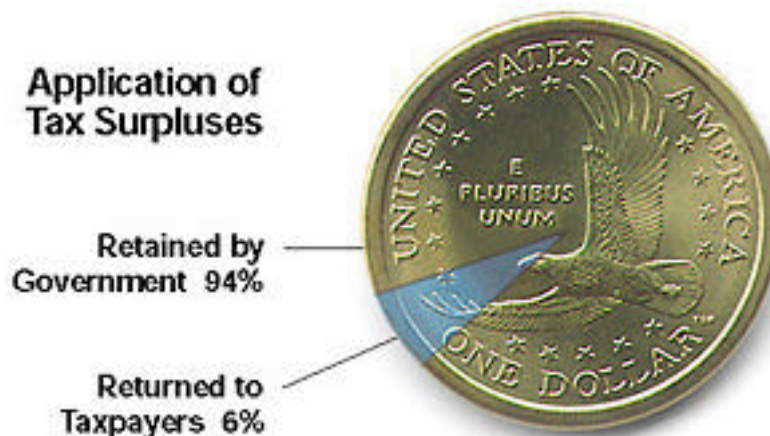
The existing legal system is simply not designed to redress premeditated attempts to inflict mass murder and cripple the American economy. The 1993 World Trade Center bombing, for example, killed six people but resulted in 500 lawsuits by 700 individuals, businesses, and insurance companies claiming \$500 million in damages. Eight years later, these cases are just now coming to trial, and hundreds of plaintiffs have yet to receive a penny in compensation. And bipartisan majorities of both houses of Congress have already twice acknowledged that allowing the existing tort system to address the September 11 terrorist attacks would have imposed catastrophic economic consequences on the United States above and beyond the losses caused by the attacks themselves—including paralyzing the commercial aviation industry that is the lifeblood of interstate and foreign commerce. Congress must apply this lesson to future acts of terrorism, as well—and continue to focus our closest attention on inflicting “punitive damage” on international terrorists, those truly responsible.

Annual Reports on the United States Government

In July and December 2001, the Policy Committee published Annual Reports on the United States Government for Fiscal Years 2000 and 2001, respectively.

The 2000 report noted that after devoting 100% of Social Security payroll tax collections to the Social Security Trust Fund—a prudent practice not observed for nearly 30 years before 1999—and paying down more than \$200 billion of publicly-held debt, the record tax surplus funded the highest one-year increase in federal spending in a decade. Fiscal 2000 also marked the highest peacetime tax burden in history—both absolutely (reaching over \$2.4 trillion) and as a percentage of the economy (consuming 21% of America's gross domestic product).

The 2001 report noted that the economic slowdown that began in the third quarter of 2000 was well underway when terrorists struck the World Trade Center and the Pentagon on September 11, 2001. After September 11, job losses and a further decline in revenues in key sectors of the economy occasioned higher federal social spending, while dampening federal tax collections. Nonetheless, fiscal 2001 resulted in the second-highest federal tax surplus in history, and the fourth consecutive year of surplus in the federal Treasury. These surpluses have been used to pay down more than one-half trillion dollars in federal debt. In fact, of the \$595.9 billion in surpluses, 94% was retained by the federal government and applied to reduction of indebtedness. President Bush returned to taxpayers \$38.2 billion, or 6% of the tax surplus, when he signed tax relief legislation, June 7, 2001.



Selected Full Committee Executive Session Guests and Meeting Topics

March 15	Director of the Office of Management and Budget Mitch Daniels
March 22	Budget Committee Chairman Jim Nussle
March 22	Secretary of Energy Spencer Abraham
March 29	United States Trade Representative Robert Zoellick
April 26	Assistant to the President for Economic Policy Larry Lindsey
April 26	Assistant Secretary of Treasury for Tax Policy Mark Wienberger
May 3	EPA Administrator Christine Todd Whitman
May 10	Secretary of Agriculture Ann Veneman
May 24	Secretary of Labor Elaine Chao
June 14	Senate Republican Leaders Trent Lott and Don Nickles
June 21	Secretary of Education Roderick Paige
June 28	Deputy Secretary of State Richard Armitage
July 12	Campaign Finance Reform, with Reps. Chris Shays, Bob Ney, and Tom Davis
July 19	Secretary of Defense Donald Rumsfeld
July 26	Sunsetting the Tax Sunset Provisions
July 31	Secretary of Commerce Donald Evans
August 1	Deputy Secretary of Defense Paul Wolfowitz and Major General Peter Franklin (Ballistic Missile Defense Threats)
September 6	Secretary of Interior Gale Norton
September 13	Former Director of Central Intelligence R. James Woolsey
September 20	Bipartisan Economic Briefing
September 20	Terrorism Commission Briefing
October 4	Secretary of Health and Human Services Tommy Thompson
October 11	Deputy Treasury Secretary Kenneth Dam
November 1	Federal Trade Commission Chairman Tim Muris
November 8	President's Commission to Strengthen Social Security
November 15	INS Commissioner James W. Ziglar
November 29	Undersecretary of State for Arms Control and International Security John Bolton
December 6	Leadership of the Iraqi National Congress

Subcommittee Activities

The Americas: Rep. Lincoln Diaz-Balart, Chair

The Subcommittee supported U.S. initiatives to strengthen democracy in the Western Hemisphere by increasing trade, improving immigration policy, and advocating human rights. On November 16, 2001, with Chairman Diaz-Balart's strong support, the House passed the Andean Trade Act, 225-191. He authored legislation on immigration in the Americas and freedom in Cuba and organized briefings for Members on a wide range of topics, including a comprehensive strategy session with former House Speaker Newt Gingrich, May 17, 2001. Members of the Subcommittee worked for Trade Promotion Authority to help reduce taxes on U.S. exports. The Subcommittee also began consideration of a new legislative idea to assimilate new immigrants into the U.S. workforce more quickly and effectively.

Biotechnology, Telecommunications, and Information Technology: Rep. Jerry Weller, Chair

The Subcommittee consulted scores of experts in all fields under its jurisdiction. In biotechnology, the Subcommittee examined stem cell research and cloning policy. In telecommunications, the Subcommittee vetted policy options to bring high-speed data connections to more Americans. In information technology, the Subcommittee sought tax law changes to reverse the bias against high-tech, and successfully pushed the Senate to renew the ban on Internet taxes overwhelmingly supported in the House. With the Health Subcommittee, Members met with health care providers to assess the effect of biotechnology developments on patients in America. The Subcommittee also worked with technology leaders to coordinate several aspects of the Congressional policy response to September 11.

Environment, Resources and Agriculture: Rep. Doug Ose, Chair

The Subcommittee successfully coordinated efforts with the Department of Commerce to promote exports with Trade Promotion Authority. Among those efforts was a standing-room-only forum in one of the Capitol's largest hearing rooms with scores of Representatives, key exporters, and Secretary of Commerce Don Evans. The Full Committee worked with the Subcommittee to issue a Policy Statement on Trade Promotion Authority. The Subcommittee also worked to improve national energy policy, playing host to Federal Energy Regulatory Commission Chairman Jim Wood.

Political, Educational, and Legal Reform: Rep. David Vitter, Chair

The Subcommittee worked to strengthen democracy and protect America's borders by focusing on election reform and immigration policy. After September 11, the Subcommittee convened an expert panel to brief Members and staff on border security and immigration reform. The experts outlined strategies for tightening security and improving the nation's immigration system. Chairman Vitter arranged for Immigration and National Services Commissioner James W. Ziglar to meet with the full Policy Committee at an Executive Session on the day after the INS released its administrative restructuring proposal, giving Members their first opportunity to question Commissioner Ziglar about legislation necessary to restructure the agency. Chairman Vitter also wrote a Policy Statement on Election Reform, making the case for legislation that addresses voting fraud, technology, and access. The Committee unanimously approved the Policy Statement November 29, 2001, as the committees of jurisdiction were preparing the legislation for the Floor. Two weeks later, the Leadership put the bill on the Floor, where, on December 12, it passed with overwhelming bipartisan support.

Health: Rep. Ernie Fletcher, Chair

The Subcommittee worked with the Full Committee and the Speaker on a series of Medicare Listening Sessions to develop House policy on Medicare and prescription drug Reform. The Subcommittee worked to improve healthcare by crafting the Patient's Bill of Rights, which President Bush agreed to sign; examining vulnerabilities to biological attack; and developing plans to reduce the numbers of Americans without health insurance in 2002. During the anthrax attack on the Capitol, the Subcommittee arranged briefings by Deputy Secretary of Health and Human Services Claude A. Allen, HHS Bioterrorism Chief Donald Henderson, and others to develop policy to protect the nation from such attacks. Assistant Secretary of Health and Human Services for Planning and Evaluation Bobby Jindal worked with the Subcommittee to address the rising number of uninsured. A Congressional Research Service panel met with key Members and staff to examine the universe of legislative ideas to boost health insurance coverage.

National Security and Foreign Affairs: Rep. Heather Wilson, Chair

The Subcommittee worked to brief Members and staff on newly emerging threats against the United States, and helped develop the unanimously-adopted House Policy Statement on Missile Defense and the President's New Strategic Framework. This Policy Statement suggested in advance that the President was correct to withdraw from the Anti-Ballistic Missile Defense Treaty with the Soviet Union, since the Soviet Union, the original

signatory to the treaty, has been dissolved and the current missile threat is from nations and terrorist organizations without an interest in the Cold War treaty. The Subcommittee also highlighted free trade to build constructive relationships with foreign nations, and played host to Ambassador Robert Zoellick, who discussed the need for trade promotion authority and the benefits of free trade agreements. The Subcommittee pursued a strong response to the September 11 attacks, bringing a number of experts to Congress, including an Israeli counter-terrorist and former National Security Adviser and Air Force Lt. Gen. Brent Scowcroft.

**Retirement Security, Capital Markets and Tax Policy:
Rep. Kenny Hulshof, Chair**

The Subcommittee helped promote economic growth, lower taxes, and fiscal responsibility by supporting pro-growth tax relief and Social Security reform. The Subcommittee worked to pass the President's permanent tax relief in the House and fought efforts in the Senate to make it temporary. A Policy Perspective prepared in consultation with the Subcommittee suggested that the economic response to the September 11 attack include rate relief on taxes on work, savings, and investment, the elimination of the heavy dead-weight job and investment loss imposed by the alternative minimum tax, and reform of tax rules on handling business investment so they conform to prudent business practice. The Subcommittee worked with the President's Commission to Strengthen Social Security, holding an Executive Session between House and Commission members, and a briefing for House staff by the Commission's Executive Director.