

Congress of the United States
Washington, DC 20510

August 15, 2001

The President
The White House
Washington, DC 20500

Dear Mr. President:

As you know, you took office at a time of great possibility for our nation. In the years leading to your election, America had pursued policies that allowed for unprecedented fiscal and economic success. Through tough decisions, fiscal discipline, and smart investments in a strong military as well as the education, skills, and health of the American people, we were able to turn record deficits into record surpluses and build the longest economic expansion in this nation's history. In fact, we were able to reach a point where – if you take away Social Security and Medicare surpluses – the Congressional Budget Office (CBO) projected a surplus of \$2.7 trillion over the next 10 years.

That projection indicated we were approaching a time of incredible opportunity – that we would be able to provide a significant reduction in taxes, address the nation's major unmet priorities, protect Social Security and Medicare, and maintain a cushion against the possibility that the economic and budget projections were too optimistic.

You recognized this possibility in your budget message to the Congress. As you said in a letter to us, your economic plan would “give our economy a timely second wind . . . [and] confront great challenges from which Government has too long flinched.”

You also wrote that “my budget strengthens and reforms education; preserves and protects Medicare and Social Security; strengthens and modernizes our military; improves health care; and protects our environment. Importantly, this budget creates an unprecedented \$1 trillion reserve for additional needs and contingencies.”

Although we believed your budget proposed a tax cut that was far larger than we thought was prudent and pointed out that your “\$1 trillion reserve” included the Medicare trust fund surplus, you asserted that your tax cut would not hinder our ability to protect Social Security and Medicare and deal with other high priority needs. Your argument that we could, indeed, do all of these things, carried the day for your economic plan. Unfortunately, to date at least, your plan has not provided the anticipated vital second wind to our economy. Moreover, it has tied our hands when it comes to meeting each of the priorities outlined in your budget letter. The tax cut you passed costs, with interest, at least \$1.7 trillion over the next decade.

The President
August 15, 2001
Page two

Just over six months into your term in office, nearly two-thirds of the non-Social Security, non-Medicare surplus projected for the next 10 years has been wiped out – and that has happened before a single one of next year’s appropriations bills has been signed into law.

By month’s end, we will receive new estimates of our short- and long-term economic and fiscal status that most analysts anticipate will reduce the non-Social Security, non-Medicare surplus still further. If the projections from CBO and your Administration’s Office of Management and Budget (OMB) turn out as expected, we face the very real prospect that your tax cut, coupled with an economy that has been slowing significantly, will have exhausted all of the surplus in the near term and leave no way to fund other functions of government without tapping into Medicare and Social Security trust funds.

This fundamental change in our fiscal situation is as dramatic as it is disturbing. Given the significance of this development, and the circumstances which produced it, we ask for your immediate attention and engagement on this most serious matter. We look forward to receiving OMB’s review of our economic and fiscal situation later this month. An honest assessment of the nation’s fiscal health in that review is an important first step to address the problems we face.

We do not want to see the fiscal policy of the last 10 years unravel further. When we receive the new estimates, we, like the rest of America, will be looking to you for your ideas on how you intend to keep your commitments to protect Social Security and Medicare as well as invest in important national priorities such as defense, education, and health care in the face of our changed fiscal situation. And we, like the rest of America, stand ready to work with you to do so.

Sincerely,



Richard A. Gephardt
House Democratic Leader



Tom Daschle
Senate Majority Leader



John Spratt
Ranking Member
House Budget Committee



Kent Conrad
Chairman
Senate Budget Committee