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# Congress of the United States

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July 9, 2002

Lindy L. Paull, Esq.  
Chief of Staff  
Joint Committee on Taxation  
1015 Longworth H.O.B.  
Washington, DC 20515

Dear Ms. Paull:

I am writing regarding the current efforts of the Joint Committee on Taxation (JCT) to develop models that improve the accuracy of the scoring process through incorporating the effects of tax changes on the nation's economy. I also find it imperative to respond to a recent letter you received from Senator Daschle and Senator Conrad opposing this work.

I commend your commitment to complying with House Rule XIII (3)h, which requires the Joint Committee on Taxation (JCT) to provide "estimates of the change in Federal revenues...[as a result of] the probable effects of macroeconomic feedback" arising from a tax proposal. Senator Daschle and Senator Conrad are perhaps not aware of this House Rule to which you are attempting to adhere. The recently organized Blue Ribbon Panel is the most important and useful step forward in providing guidance and advice to the JCT on implementing these macroeconomic models. The broad spectrum of academics you have invited to consult on this issue will help direct the JCT toward the appropriate next steps in modernizing and improving the estimating process.

Upon reading the letter to you from Senator Daschle and Senator Conrad I could not help but wonder why the Senate leadership is so committed to freezing the current incomplete revenue estimating system in place. How could they be so certain it contains no flaws and can not be improved? Only partisan political interests could motivate their strong commitment to the imperfect

status quo with such utter disregard for improved openness, refinement of government processes and the advancement of revenue estimating methodologies. More surprising however is their implicit belief that no tax policy can affect the overall economy. Does Senator Daschle believe that his proposed Job Creation Tax Credit will have no positive effect on aggregate levels of employment? Current JCT revenue estimating procedures would over-estimate the revenue loss from a tax proposal that resulted in additional workers entering the workforce and generating tax revenues. Does Senator Daschle accept that JCT's current method does not account for the intended effect of his tax proposal?

I was further concerned by the accusation by Senator Daschle and Senator Conrad that Federal Reserve Chairman Alan Greenspan is not a supporter of improving the current revenue estimating system and enabling the estimating process to allow, for example, for changes in the number of jobs in our economy. Senator Daschle and Senator Conrad quote a short excerpt from Greenspan's 1995 testimony to a joint session of the House and Senate Budget Committees. However, this quote is misleading and outdated. More recently, on March 7, 2002 Chairman Greenspan noted in testimony, "[M]ost economists would agree that in evaluating the effects of various different fiscal policies, it would be far better to use what we call dynamic scoring, that is, the ability to get the interaction of the effect as well as the initial impact."

Even a more careful and complete read of Chairman Greenspan's 1995 testimony notes his belief there are significant flaws in the current system. Greenspan stated then, "I don't think anybody who has looked at this [revenue estimating] system in considerable detail would say that the official scoring procedures which we are employing at this particular stage are realistic in terms of making judgments of choosing policy A versus policy B."

Finally, the Senators accuse the JCT of having "moved ahead...without discussing the matter with... Senators who are key participants in the budget process." I must infer from this statement that there is rather poor communication between Senate Democrats and their staffs. I know that you consulted with Senate Finance Democratic staff at the outset of the establishment of the Blue Ribbon Panel and in addition many Senate Democratic staffers attended the first Blue Ribbon Panel including staff from the Finance Committee, Budget Committee and Joint Economic Committee.

Turning to the more important issue of how to proceed with this issue, I would like to indicate to you that I strongly believe that the development of appropriate macroeconomic models is important for providing more complete and more accurate information to Members of Congress. As you and your staff are well aware (and your *micro*-simulation models reflect), there is an overwhelming

amount of academic literature indicating that taxes affect the choices of both companies and individuals with regard to their decisions to save, spend, work and invest. As a particular tax policy affects large numbers of individuals or firms in significant ways, these effects are aggregated across the economy and macroeconomic effects can occur. However, current scoring procedures do not reflect these aggregate (or macroeconomic) effects and restrict behavioral changes to the micro level.

Including the effects of tax policy on the economy may be a challenging task, but to ignore these effects is to knowingly accept incomplete revenue estimates. And to urge you to not even conduct seminars with the non-partisan Blue Ribbon Panel is absurd. Undoubtedly there will be further political opposition to improving the accuracy of the estimating process but the current efforts underway by JCT to reform the system will lead to better and more complete information. No one should ask for anything less.

My interest in this issue is not to develop “evidence” that supports reducing taxes. Rather, it is to obtain more accurate information for Members of Congress on the true consequences of various tax proposals we are considering, and ultimately to help guide us in decisions about our tax system.

I am confident that through intense efforts this summer, before the next meeting of the Blue Ribbon Panel in September, you will be able to make significant progress on your efforts to refine your primary macroeconomic model and further develop alternative models.

I suspect that developing the best models for this task will require an open and transparent process, repeated consultation with academics and other experts in the field, and a sufficient number of dedicated staff for this critical issue. I stand ready to assist you if additional funding may be necessary to fully effect any desired changes to current policy. The Blue Ribbon Panel, leading experts from across the political spectrum, are an invaluable source for honest, reasonable and sound advice and we should seriously consider their recommendations when they propose them.

Best regards,

A handwritten signature in black ink that reads "Bill Thomas". The signature is written in a cursive, flowing style with a long horizontal stroke at the end.

Bill Thomas  
Chairman, Ways and Means Committee

Cc: The Honorable Dennis Hastert  
The Honorable Max Baucus  
The Honorable Don Young  
The Honorable Charles Taylor