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Joint Economic Committee
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109TH
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Opening Statement
Senator Jack Reed
Joint Economic Committee Hearing
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Thank you, Chairman Saxton. It is a pleasure to be here at the first hearing of the Joint Economic Committee in the 109th Congress, and I look forward to working with you. It is fitting that this hearing is with the Council of Economic Advisers, which was created at the same time as the JEC in the Employment Act of 1946.

I want to welcome CEA Chairman Rosen and CEA member Forbes. I know that your backgrounds are not in economic forecasting, but I am confident that you will be able to give us useful insights on current economic conditions and where you think the President's policies are taking us.

I have three major concerns about the economic outlook. First, I am concerned about what continues to be an extremely disappointing economic recovery for the typical American worker. I know that the Administration is proud of the fact that the economy has created jobs for 22 consecutive months. But the pace of job creation over that period works out to just 141,000 jobs per month. That is barely enough to keep up with normal growth in the labor force. Last month, we did not even match that pace, as only 110,000 jobs were created.

The slow pace of job creation is disappointing, but what is happening to the take-home pay of the average worker is even more disappointing. Since May 2003, when the economy finally began creating jobs again, the average hourly earnings of production workers in nonfarm industries have fallen by 0.7 percent after accounting for inflation. In addition, we are finding that the distribution of earnings is becoming more unequal and American families are having to shoulder more risk in today's economy. I think these issues are the darker side of the President's plan for an ownership society, and I think they are concerns that need to be addressed.

My second major concern about the economic outlook is the effects we are seeing in the trade deficit and the foreign exchange market from the irresponsible fiscal policy we have been pursuing over the past four years. This week we learned that the trade deficit is still widening, with February's deficit of \$61.0 billion a record for a single month. The broader current account deficit rose to a record 6.3 percent of GDP in the fourth quarter of 2004. The large drain on national saving from the federal budget deficit has put us in a position where we must borrow \$650 to \$700 billion per year from the rest of the world to sustain our spending. That money will have to be paid back with interest, which will be a drain on our national income and future standard of living.

Finally, I am concerned that the President wants to extend this fiscal irresponsibility to Social Security. Analysis by the JEC Democratic staff and others shows that the President's private accounts plan would require a massive increase in the public debt that is not simply a short-run transition cost. Rather, the additional debt associated with private accounts would reach 35 percent of GDP by 2060, on top of a debt already equal to 37 percent of GDP today.

The President's plan for private accounts makes Social Security solvency worse by diverting payroll taxes from the trust fund. That drain on the trust fund moves up the date that Social Security can no longer pay full benefits and increases the present value of the 75-year financing gap from \$4.0 trillion to \$5.6 trillion.

Finally, the President's plan for private accounts does nothing to increase national saving, and could lower it still further. The private saving that would be generated by the creation of private accounts would be completely offset by the reduction in public saving from the larger budget deficits, and people might reduce other private saving such as their contributions to 401(k)s and IRAs.

Raising national saving is the key to economic growth and one of the ways to reduce the trade deficit. Moreover, as Federal Reserve Chairman Alan Greenspan recently testified, it is the best way to meet the fiscal challenges posed by the retirement of the baby boom generation. Unfortunately, the President's policies of large tax cuts for those who are already well off and private accounts that add to the debt and worsen Social Security solvency seem to be taking us in exactly the wrong direction.

I look forward to your testimony about the economic outlook, and I will listen with interest to anything you can tell me that will allay my concerns about that outlook.

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