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Opening Statement
Senator Jack Reed
Joint Economic Committee Hearing
June 27, 2005

Thank you, Chairman Saxton. I want to welcome CEA Chairman Lazear to his first JEC hearing, and I look forward to discussing with him the President's policies and the prospects for the economic recovery. I am also pleased that we will have Dr. Levy and Dr. Setser on a second panel to give us further perspectives on those issues.

The latest Administration economic forecast, which is in line with the consensus of other forecasters, is for economic growth to continue, but at a more moderate pace than we have seen recently. Of course there are risks to that forecast. High energy prices and a cooling housing market might slow consumer spending more sharply than forecasters are now predicting, and our trade deficit and dependence on foreign lenders have reached alarming proportions. The Federal Reserve has to decide how to deal with these risks while preserving its credibility on inflation. If the Fed makes the wrong choice, the economic recovery could end before it has even begun for many American families.

That brings me to the core of my concern about the economy and this Administration's policies. As much as the President would like to say that his policies are benefiting all Americans, the fact is that we have gone through the most protracted jobs slump in many decades; real wages are not just lagging behind productivity growth, they are stagnating; and economic inequality is increasing. While workers are waiting to see the benefits of this economic recovery show up in their paychecks, American families are experiencing widespread economic insecurity in the face of soaring energy prices, rising health care costs, declining health insurance and pension coverage, and rising costs for a college education for their children.

The President's tax cuts have not been the answer. They were poorly designed to stimulate broadly shared prosperity and have produced a legacy of large budget deficits that leave us increasingly hampered in our ability to deal with the host of challenges we face. Moreover, the President's goals of making his tax cuts permanent and cutting the deficit in half are simply incompatible.

Large and persistent budget deficits have contributed to an ever-widening trade deficit that forces us to borrow vast amounts from abroad and puts us at risk of a major financial collapse if foreign lenders suddenly stop accepting our IOU's. We had a current account deficit of nearly $800 billion last year and our international financial debt continues to mount.

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I hope we would all agree that raising our future standard of living and preparing adequately for the retirement of the baby boom generation require that we have a high level of national investment and that a high fraction of that investment be financed by our own national saving—not by foreign borrowing. We followed such prosperity-enhancing policies under President Clinton, but that legacy of fiscal discipline has been squandered under President Bush.

Most experts believe that the budget deficits we need to worry about are the long-term structural deficits resulting from the President's tax cuts, not cyclical deficits resulting from temporary declines in economic activity. So, I will be interested in Chairman Lazear's explanation of just how "we can grow our way out of deficits" as he recently wrote in the *Washington Post*.

I am also curious about Dr. Lazear's recent statement in the *Wall Street Journal* that "the President's tax cuts have made the tax code more progressive, which also narrows the difference in take-home earnings." In fact, the President's tax cuts have widened the gap in take-home earnings. According to the nonpartisan Tax Policy Center, the tax cuts passed since 2001 have raised the after-tax income of the top 1 percent of Americans by 5 percent, while raising the after-tax income of the bottom 60 percent of Americans by just 2 percent.

Chairman Lazear rightly points out that "policies must increase the opportunities of all workers to acquire skills and training." But this view doesn't square with the President's budget, which includes cuts to elementary and secondary education, student aid and loan assistance for higher education, and job training for displaced workers.

Instead of addressing our real economic problems, the President's policies seem to be piling on.

I look forward to Chairman Lazear's testimony about the economic outlook, and I will listen with interest to anything the Chairman and our witnesses can tell me that will allay my concerns about that outlook.

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