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Opening Statement Senator Jack Reed Vice-Chairman, Joint Economic Committee October 17, 2001

Thank you, Chairman Greenspan, for coming to testify before us. Thank you, too, Mr Chairman Saxton, this opportunity to discuss and debate our economic outlook and appropriate policies.

In light of the new fiscal realities we face, economic policy needs to be recalibrated. The key to achieving a rapid recovery is to bolster incomes, because when cash-strapped household cut their spending, business sales suffer, stifling investment. We need to complement existing monetary policy with an economic stimulus package – but one that has its maximum impact in the short run and does not undermine long-term fiscal discipline. Specifically:

- The stimulus package should be large enough to have an impact on a \$10 trillion economy, up to about \$100 billion (1 percent of GDP), a figure which I believe you have supported, Chairman Greenspan.
- The bulk of the stimulus should be felt in the next two or three quarters when the economy is weak. More often than not, economic stimulus in the past has not been implemented until the economy was already recovering.
- The Stimulus package should be designed to phase out rapidly, so that the stimulus measures do not overheat the economy later in recovery. Thus permanent tax cuts or new spending that spends out slowly are not attractive candidates, while safety net programs (such as Unemployment Insurance), which are designed to be counter-cyclical, are.
- The stimulus package should maximize the amount of short-term economic activity created per dollar of outlays or revenue lost. For example, a tax cut for low- or moderate-income households who are likely to spend nearly all of the extra income is more effective as stimulus than a similarly sized tax cut for higher-income households who are more likely to save a substantial portion of it.

These principles are outlined in greater detail in a new report prepared by the Democratic Staff of the Joint Economic Committee. The report, "Economic Stimulus: Principles and Options," evaluates the leading proposals in light of their impacts on the economy and the degree to which they have a stimulative effect. The report is available on the information tables or online at <www.senate.gov/~jec>.

Earlier this year, Chairman Greenspan, you spoke of the need to “resist those policies that could readily resurrect the deficits of the past and the fiscal imbalances that followed in their wake.” You also testified about the limits of tax cuts as effective tools to stimulate the economy. I would be interested in your thoughts on how the economic stimulus proposal before the House right now deals with these tenets.

We have an important responsibility before us – to undertake fiscal policies that will protect the most vulnerable in our economy while ensuring that we do not compromise our economic future. It is a challenge we can meet, if we stick to policies which put people back to work and generate productive business investment.