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Congress of the United States

JOINT ECONOMIC COMMITTEE

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Opening Statement
Representative Pete Stark
Joint Economic Committee Hearing
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Thank you, Chairman Bennett. I want to congratulate you as the new Chairman of the Joint Economic Committee. I also want to congratulate you for holding this hearing. All indications are that Dr. Hubbard was an important architect of the Administration's latest economic plan, and I welcome this opportunity to hear how he responds to some fundamental concerns that I and many others have about that plan.

I hope we can all agree that almost two years after the start of the recession in March 2001, the economy is still in a slump and is not creating jobs. GDP growth in 2002 was too weak to bring down the unemployment rate, which stands at an eight-year high of 6 percent. On net, no new jobs were created last year. In fact, payroll employment ended the year slightly below the already depressed level reached at the end of 2001.

The economic outlook can be summed up in the title of the old Buddy Holly song, "Crying, Waiting, Hoping." We're crying because the economy is not delivering the jobs it should; we're waiting for businesses to start investing and rehiring again, because new business investment is critical for mounting a sustainable recovery; and we're hoping that the battered and anxious consumer will keep spending in the meantime, so that the economy does not slip back into recession.

I wish I could say that the President has a plan that would address the real problems in the economy, but he does not. Instead of a plan that would put money into the hands of those who need it and would spend it immediately, the President has proposed to eliminate the individual income tax on dividends paid by corporations and to speed up the rate cuts that go to a relatively small number of high-income taxpayers. There are other things in the President's plan, but those two proposals account for more than half of the cost. I see three major problems with the President's plan.

First, it does not provide job-creating stimulus when we need it. The impact in this fiscal year is a paltry $35 billion or so in a package that costs a whopping $674 billion over the next 10 years. We need to do more now to create jobs and put people back to work. The Administration's program relies almost exclusively on tax cuts and ignores government spending, which can have a direct and immediate impact on jobs and incomes.

For example, the President's program provides no relief for the states, whose financial crisis will force them to raise taxes or cut spending at exactly the wrong time in the business cycle. States will have to lay off workers and there will be no money for child care and other support services that help single working mothers. Moreover, the Administration's dividend proposal would automatically reduce the tax base of states that tie their income tax to the federal form. The President's plan does not directly address the problems facing people who have exhausted their unemployment benefits but are still having trouble finding a job. A true job-creating stimulus package would pack more punch in the first year. For example, the proposals of House Democratic Leader Pelosi and Senate Democratic Leader Daschle would each provide about $140 billion of immediate stimulus to put people back to work as quickly as possible.

A second problem with the President's plan is that it is fiscally irresponsible. It either drains budget resources that could be put to better use—such as really improving Medicare—or it increases the deficit. In the latter case, once interest costs are taken into account, the President's new tax cuts would add almost a trillion dollars to the national debt over the next 10 years.

You would think that with the retirement of the baby boom generation just a few years away, we would be taking steps to make sure that we have the budget resources to honor our Social Security and Medicare commitments. Instead we are squandering them on tax cuts that are hard to justify. I think you would be hard pressed to find many economists who think that the major reason unemployment remained stubbornly high last year was the double-taxation of some dividends. But I think you could find a lot who believe that large increases in the public debt are bad for interest rates, investment, and long-term growth.

So, why is the Administration proposing something that doesn't help in the short-term but undermines budget discipline in the long run? Once again, it is instructive to compare the President's proposal with the Democratic alternatives, which concentrate almost all their impact in the first year, without worsening the deficit in subsequent years.

My final problem with the President's plan is that it is unfair. People with incomes over a million dollars get tax cuts of almost $90,000, much of it from the dividend proposal and the upper bracket rate cuts. The average family receives almost no benefit from those provisions. The Administration cites new data from the Federal Reserve showing that more than half of American families own stock, either directly or indirectly through mutual funds and pensions. But owning some stock and benefiting from the President's dividend proposal are two different things. What the Administration does not point out is that wealth, including stock ownership, is much more unequally distributed than income. In 2001, the wealthiest 10 percent of households held 70 percent of all the wealth. Those are the people who are going to get most of the benefit from the President's dividend proposal.

Some provisions of the President's plan provide tax cuts to middle class families, but middle class families fare at least as well under the Democratic alternatives as they do under the President's plan. The difference is that the Democratic alternatives are able to provide more stimulus with less long-term harm to the budget because they do not provide expensive tax breaks to very high-income taxpayers. And, unlike the Administration, they recognize that there are a million people out there who have exhausted all federal and state unemployment benefits and are still out of work, and that helping out those workers should be part of any program to get the economy moving again.

I must agree with my colleague in the U.S. Senate, Senator Breaux, who recently commented that investing in our health care system would do far more to stimulate our economy and improve the lives of real people than anything in President Bush's latest tax cut. President Bush always finds the money for tax cuts, but falls short when it comes to Medicare, prescription drug coverage, and people's health.

Over the past two decades we have seen two different fiscal policy experiments. In the one, we enacted a large tax cut and saw budget deficits balloon. That was the 1980s. In the other, we took steps to bring down the budget deficit, including some tax increases on the richest 1 to 2 percent of taxpayers. That was the 1990s. Did it matter whether we had deficits? Here's what one textbook says:

> We can represent the large increases in the federal budget deficit in the early 1980s…creating short-run pressures for higher output and interest rates (emphasis added). By the late 1990s, an emerging federal budget surplus put downward pressure on interest rates.

That is a quote from Dr. Hubbard's textbook, Money, the Financial System, and the Economy. Like most academic economists, he recognized that a lack of fiscal discipline contributes to higher interest rates and fiscal discipline contributes to lower interest rates. I hope he would recognize that large budget deficits drain the pool of national saving, reducing the amount available for new investment or forcing us to borrow from the rest of the world, incurring an obligation that we will have to repay in the future.

It looks to me like the fiscal policies the Bush Administration is pursuing are more like those of the 1980s than they are like those of the 1990s. Of course, there is one difference. In 1982, President Reagan recognized that the tax cut that was passed in 1981 was excessive, and he scaled it back substantially.

I am looking forward to Dr. Hubbard's testimony, and I hope he addresses these concerns.

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