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Opening Statement
Senator Jack Reed
Vice-Chairman, Joint Economic Committee
April 17, 2002

Thank you. I want to commend Chairman Saxton for holding this hearing and to welcome Federal Reserve Chairman Greenspan.

The past year and a half have proven to be quite challenging, both for economic forecasters and for policymakers. You and your colleagues at the Federal Reserve began to take aggressive action to head off economic weakness early last year and ended up cutting short-term interest rates 11 times over the course of the year. You also responded quickly to inject liquidity into the financial system at the time of the September 11 attacks. In other words, Chairman Greenspan, I think you have conducted monetary policy quite responsibly over this period.

I wish we in the Congress had been as wise in our fiscal policy decisions. In any case, the economy may be on the road to recovery, but the budget outlook was left in shambles by the tax cut, the recession, and the terrorist attacks. And, in that order, I might add. The Senate Budget Committee's analysis of CBO data shows that more than 40 percent of the decline in the baseline 2002-2011 surpluses since last January is due to the tax cut and associated debt service costs, with lesser percentages attributable to weaker economic conditions, increased spending to fight terrorism, and other technical budget adjustments.

This change in our budget outlook has important implications for our economy. As you pointed out earlier this year, Chairman Greenspan, the reduced prospects for paying down our national debt were a factor in keeping long-term interest rates from falling as much as we might have expected when the Fed cut short-term rates. And if the experience of the 1980s is any guide, a large tax cut that eats into our national saving will keep interest rates high and produce an unbalanced expansion with low rates of investment even as we climb back to full employment.

The consequences of not having surpluses to fund our national priorities are severe. I am worried, for example, that even as the recovery gets underway, labor markets will remain soft for the most vulnerable in our society – less skilled and minority workers. Budgetary pressures have led the President to propose cuts in job training programs, which are precisely the sort of programs we will need to help less-skilled workers join in the recovery.

So, Chairman Greenspan, I am encouraged with how the economy has been performing recently, at least relative to the discouraging forecasts we had been seeing. With the economy picking up while inflation remains moderate, I hope the Federal Reserve can afford to wait before it begins to unwind its year-long series of rate cuts. I will be interested in hearing your views on the short-term outlook.

But I am discouraged by the longer-term fiscal outlook. I would be interested in your views about whether the deterioration of the budget outlook is a threat to our long-term growth prospects, especially as we look beyond the current budget window to the years when the retirement of the baby boom generation will put increasing pressure on the budget. I don't think we can just grow our way out of the current budget situation, but I wonder what you think.

Again, thank you for coming, and I look forward to your testimony.