



JOINT ECONOMIC COMMITTEE
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Floor Statement of Sen. Charles E. Schumer
Chairman, Joint Economic Committee
Humphrey Hawkins Budget Debate
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Mr. President, today we are looking at an economy on the verge of a recession. **The economic hits to middle class American families just keep on coming.**

Before I talk about the Democratic budget package, which is far superior to the President's budget, I'd like to use this Humphrey Hawkins Act debate time, as the Chair of the Joint Economic Committee, to talk about the economy.

In the last week alone, we have learned:

- We are experiencing record home foreclosures in the subprime and the prime mortgage markets from coast to coast. Every single state has been affected by an increase in foreclosures, according to an analysis by the Joint Economic Committee.
- Home prices in every major market are falling, and families have historically low equity in their homes. Moody's Economy.com estimates that 8.8 million homeowners—over 10% of all homeowners—by the end of this month – will owe more money than their homes are worth.
- Just this past Friday, the Labor Department reported back to back months of job losses, with serious losses this past month in the manufacturing, construction, and retail sectors.
- Today the Commerce Department released data showing rising trade deficits with China and oil-producing nations like Venezuela, and Saudi Arabia.
- Americans are paying a record average of \$3.22 per gallon of gas today.
- And if that isn't enough, oil is selling for over \$110 per barrel – an all-time record.

As we put forward a more sensible budget plan for our country this year, we have to recognize the pressure on families has been made worse since President Bush took office. Over the last seven years, Americans have been squeezed by skyrocketing energy, health care and education costs:

- Energy costs have ballooned 64.0 percent during Bush's tenure.
- A gallon of regular grade gasoline has increased almost 60 percent in real terms, up from \$1.62 in January 2001. The average middle-class family is paying more **JUST IN HIGHER GASOLINE PRICES** than they received in Bush tax cuts.
- There are 7.2 million more people uninsured since Bush took office in 2001, and the average cost of health insurance for families who do have it has increased nearly 40 percent since 2000.
- Inflation-adjusted tuition for four-year public colleges increased 36.3 percent between the 1999-2000 and 2005-2006 school years to \$5,526 per year.
- In February 2008, 4.9 million people were working part-time for economic reasons but wanted full-time work, and the **UNDER**-employment rate is almost 9 percent, up 1.6 percentage points since 2001.
- That's 1.4 million fewer people with jobs since Bush took office.
- The bottom line is that this administration is the owner of the worst jobs record since Herbert Hoover, and the last two months of losing nearly 90,000 jobs secures that unfortunate place in history.
- The significant jobs losses in the manufacturing and construction sectors have continued since the housing market has been in trouble and doesn't seem to be getting better.
- And the job losses in the retail sector are particularly troubling because it indicates that consumer spending, which has driven this economy, has also declined measurably.

The president's 'hear no evil, see no evil' policies on our economy simply do not work.

It is only a matter of time before consecutive months of job losses, falling home prices, rising energy prices, and cutbacks in consumer spending lead us to a full-blown recession. It is crystal clear to everyone, but the Bush Administration, that we are inevitably heading towards a recession.

It isn't a surprise to many economic experts that we are on the brink of recession or already in one – although the administration has done an excellent job of hiding its head in the sand.

For the last seven years we have been governed by a one-size-fits-all economic strategy guided solely by massive tax cuts. That strategy has produced burgeoning budget

deficits, a serious global trade imbalance, and has brought us to the precipice of a recession.

This unmistakable economic downturn began early last year as the subprime mortgage mess unfolded. The spillover effects into the broader housing market, the credit markets, and the overall economy are tremendous.

According to the JEC's conservative estimates, by 2009 at least 1.3 million foreclosures will occur as the riskiest subprime mortgages (the two- and three-year adjustable rate mortgages) reset over the course of this year and next. This will lead to the destruction of approximately \$100 billion in housing wealth, including an estimated \$71 billion in direct losses on foreclosed properties and a decline in the value of neighboring properties by an additional \$32 billion.

And overall housing prices continue to fall, as seen in the almost 10 percent decline of the S&P/Case-Shiller national home price index since the first quarter of 2006.

Last week, the Federal Reserve released data showing that American families hold less equity in their houses than at any time since the Fed began tracking this data in 1945. Under the Bush Administration, the primary source of wealth for most Americans – the equity in their houses – dropped by nearly 10 percentage points, from a 57.8 percent equity stake when Bush took office to a current low of 47.9 percent.

Given that housing wealth totaled about \$23 trillion in 2006, the decline in household balance sheets is now between one and two trillion dollars. Declines in house prices are likely to have significant negative effects on consumer spending and a host of other deleterious effects on the economy.

We are borrowing to pay for this war in Iraq as well. The economic cost of the Iraq War is truly staggering. According to Professor Joe Stiglitz, who testified at the JEC last month, the war could cost \$3 Trillion, that TRILLION with a "T." According to a report our committee did in November, the war will cost nearly \$37,000 per household.

The federal government is increasingly reliant on the rest of the world to buy our public debt, and with a falling dollar and skyrocketing debt, who knows how much longer we can count on such financial largess from our trading partners.

President Bush turned huge budget surpluses into huge deficits in a few short years. In January 2001, the Congressional Budget Office (CBO) projected that from 2002 to 2011, those surpluses would total \$5.6 trillion. In 2001, CBO's projection was for a surplus of \$573 billion in 2007. In reality, the deficit was \$163 billion. That's a turnaround of \$736 billion, or more than \$100 billion for every year that President Bush has been in office.

This remarkable turnaround in the budget picture shows a reckless disregard by the administration for living within our means and has frankly jeopardized the future economic success of families across the country.

He may have passed some big tax cuts for his well-off friends, but he has not been very compassionate to future generations, who will be paying the interest on this increased debt for generations to come.

The Democratic budget provides some measure of sanity and order to our budget priorities, and hopefully will put our country back on more solid economic footing.

I want to commend Senator Conrad for crafting a budget resolution that gets us started on the road to recovery from these misguided policies. There is much work to do, but we are off to a good start with this budget resolution.

One of the important things about Senator Conrad's budget is that by restraining spending and making the right choices on long-term tax cuts, it provides room for important middle-class tax cuts to ease the middle-class squeeze, such as the tax cuts provided for in Senator Baucus's amendment. These tax cuts are not a fix for what ails our economy in the long term, but they will help middle-class families make ends meet.

Senator Baucus's amendment is broad-based tax relief targeted to the middle class, plain and simple. Everyone benefits, but the middle class gets most of the benefit. That's how we ought to be providing tax relief in this country – not providing more and more tax breaks to the top one-tenth of one percent, whose incomes have shot into the stratosphere. Tax cuts for those that need them, not for those that won't notice them.

If we look at the tax cuts that passed in 2001, we know which ones should be made permanent, and which ones shouldn't. The \$1,000 per child tax credit, marriage penalty relief, and the 10 percent bracket are all sensible tax cuts that can be made permanent with the surpluses provided for in the Conrad budget.

The Baucus amendment does some other sensible things as well. Across the country, parents are struggling to manage the crunch of work and family. According to a report issued by the JEC, full-time child care costs average about \$7,300 per year in the United States, almost 20 percent of the median income of families with young children. The Baucus amendment will permanently extend the tax credit for child care expenses, again providing essential benefits for working families.

Senator Baucus's amendment also includes provisions to offset the impact of rising local property taxes, an issue that I hear about from my constituents every week. And the amendment will make permanent the important military tax benefits that passed both the House and Senate last December. These benefits are particularly targeted towards our servicemen and women and their families. Given the multiple rotations many of our servicemen and women have endured, these tax relief provisions are supported by all and they are the least we can do.

I urge my colleagues to support the budget, and to support the Baucus amendment when it is offered. Mr. President, I yield the floor.