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Opening Statement
Senator Jack Reed
Vice-Chairman, Joint Economic Committee
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Thank you, Chairman Saxton, for this opportunity to discuss and debate our economic outlook and to examine what policies are appropriate for dealing with our current economic situation. I also want to thank Chairman Hubbard and the distinguished economists who will follow him for coming to testify before us.

Two days ago, the National Bureau of Economic Research declared that this country's longest economic expansion on record came to an end back in March and that we have been in a recession since then. Of course, it was pretty clear before the NBER made it official that we had entered a period of slow economic growth, which was aggravated by the terrorist attacks on September 11.

The task before us as policymakers is to make the right decisions to get the economy out of this recession quickly and put us back on the path of strong and sustainable growth. Monetary policy is already doing its part, and we took some steps immediately after the attacks to increase funding to fight terrorism, address the needs of the areas most affected by the attacks, and maintain a viable airline industry. Yet most economists say that the economy could use a further fiscal boost, provided–and this is very important–provided it is quick and effective. A poorly designed fiscal policy could be a waste of valuable resources or it could even be counterproductive.

As I urged in our October hearing with Federal Reserve Chairman Greenspan, a fiscal stimulus package is only a good idea to the extent that it has maximum impact in the short run and does not undermine long-term fiscal discipline. We must not let the recession be an excuse to promote changes in taxes and spending that erode budget surpluses for years to come. Such an outcome would very likely produce higher interest rates that would discourage investment. This would not only limit the amount of stimulus in the short run; it would also weaken our longer-term growth prospects.

I also doubt that tax cuts are the most effective way to stimulate the economy. To be effective in stimulating new investment, business tax cuts must be sharply focused on the investment decision and must be available for only a limited amount of time. This hardly seems to be the case with the corporate AMT, especially the proposal by the House to provide rebates on past corporate AMT payments. Only about a quarter of taxpayers would benefit from accelerating income tax rate cuts and these are upper income taxpayers who are less likely than others to spend most of their tax savings. Permanent tax cuts also represent a permanent commitment of federal budget resources, at a time when the tremendous budgetary pressures associated with the retirement of the baby boomers are less than a decade away.

I am puzzled by the claim that tax cuts are stimulative but government spending is not. There are many worthy public investments that would contribute directly to GDP while addressing needs that would go unfulfilled if left to the private sector– for example, strengthening our public health, transportation, and security systems. And the primary effect of getting money into the hands of *lower*-income households–either through tax rebates or expanded unemployment benefits–would be to boost consumption spending. People who have lost their jobs and have trouble making ends meet are the ones to target if the goal is to get the most bang for the buck out of our stimulus policies.

Mr. Chairman, I am looking forward to the testimony and discussion with Chairman Hubbard and the other distinguished economists at this hearing. I hope we can clarify some of these issues and contribute to the development of a stimulus package that gets the economy back on track as quickly and effectively as possible.