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# *Congress of the United States*

## Joint Economic Committee

Democrats

# Opening Statement
# Representative Pete Stark
# Joint Economic Committee Hearing
# February 26, 2003

Thank you, Chairman Bennett. I also want to thank you for holding this hearing, which continues a JEC tradition of having the Council of Economic Advisers present and discuss the Economic Report of the President. I want to welcome Dr. Hubbard, who testified before this committee last month, and Dr. Kroszner. I look forward to continuing our discussion about the Administration's latest economic plan. Our second panel of witnesses will also provide useful perspectives.

Yesterday it was reported that consumer confidence has slumped to the lowest level in nearly a decade. Consumers are worried about the weak job market, falling stock values, rising gas prices, the threat of terrorism, and war with Iraq. I think it's fair to say that the President's latest economic plan does not inspire confidence.

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. The Administration is proposing something that doesn't help in the short-term and undermines budget discipline in the long run.

The President's latest budget, released earlier this month, shows the startling effects of the Administration's fiscal policy agenda. In January 2001, the President inherited a 2002-11 surplus of $5.6 trillion. The latest Congressional Budget Office (CBO) projections show that even if no further policy actions are taken, this surplus has shrunk to $20 billion. The Administration's own projections show that if the President's policies are enacted, there will be a cumulative deficit of $2.1 trillion over that period – an astounding $7.8 trillion reversal in only two years.

The Administration continues to argue that the deterioration is due almost entirely to events beyond its control – mainly the economic recession and the war on terrorism. But the facts are that the tax cuts already passed are responsible for a third of the deterioration in the budget outlook for 2003 and 2004. If the 2001 tax cut were to be made permanent, this share would only increase over time. In addition, the budget ignores the cost of deploying troops and the cost of a war with Iraq, which the Administration continues to push upon us. Today's Wall Street Journal reports that the President will request

supplemental spending totaling as much as $95 billion for war, its aftermath, and new terrorism expenses.

The budget situation is actually much worse, because these projections contain glaring omissions, such as the cost of extending other tax breaks that are scheduled to expire but which Congress has repeatedly extended; the cost of fixing the alternative minimum tax; understating the growth in discretionary spending, particularly for defense and homeland security; and the cost of a war with Iraq. These factors could easily add more than $2 trillion in costs over the next ten years.

The Administration's tax cut proposals seem especially large and inappropriate in the context of the future fiscal pressures on the Social Security and Medicare systems. Permanently extending the 2001 tax cut alone would cost 1.3 percent of GDP by 2012 and the President's other new tax proposals would add another 0.6 percent, for a total tax-cutting agenda worth 1.9 percent of GDP. By comparison, the 75-year shortfall in the Social Security trust fund is currently 0.72 percent of GDP, and the 75-year shortfall in the Medicare (HI) trust fund is 0.96 percent of GDP, adding up to less than 1.7 percent of GDP.

When President Bush took office, he touted ambitious plans to reform Social Security in order to address the demographic challenge. But this year's Economic Report of the President does not mention the challenge itself, much less the Administration's ideas for addressing that challenge.

With the retirement of the baby boom generation just a few years away, we should be taking steps to make sure that we have the budget resources to honor our Social Security and Medicare commitments. During the Clinton Administration, growing budget surpluses were considered prudent preparation for the looming demographic change. But the Bush Administration has squandered the Clinton surpluses at a time when the certain demographic change is ever closer, and when new pressures and uncertainties associated with the war on terrorism and the possible war with Iraq are before us.

The President's plan is stunningly irresponsible. It drains budget resources that could be put to better use – such as really improving Medicare – and it increases the deficit. Once interest costs are taken into account, the President's new tax cuts would add almost two trillion dollars to the national debt over the next 10 years. Large increases in the public debt are bad for interest rates, investment, and long-term growth. It's no wonder that consumers have a sinking feeling about the economy.

I look forward to Dr. Hubbard and Kroszner's testimony, and I hope they address these concerns.

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