Statement of Senator Dianne Feinstein at the Democratic Policy Committee hearing, "Will the Bush Economic Plan Create Jobs?"

June 9, 2003

Senator Dorgan, thank you for organizing this hearing, and for allowing me to address the critical issues of spurring economic growth and creating new jobs.

I would like to start off by saying a few words about the California economy, which I believe is an indicator for what is occurring at the national level.

During the late 1990's, California was the engine of much of the nation's growth, and annual GDP growth in the San Francisco Bay Area was well over 10 percent. The state unemployment rate fell to a 31 year low of 4.5 percent in February, 2001.

Now, California's unemployment rate is a half-point higher than the national average, at 6.6 percent, and parts of the state economy are still shedding jobs.

Venture capital funding, once the primary economic fuel of Silicon Valley, remains well below its 2000 high, and billions of dollars in funds remain uninvested due to economic uncertainty. Nationwide, venture funding in 2002 totaled less than a fifth the amount invested in 2000.

California has a highly educated, service-oriented workforce that is a model for the country, and economic weakness in the state is a bad sign for the future of the national economy.

Nationwide, geopolitical uncertainty and a lack of investor confidence must be addressed before we see the return of healthy economic growth.

As Alan Greenspan made clear during his recent testimony before the Joint Economic Committe, continued fears about our security at home and abroad have dampened new investment and fostered a "wait and see" mentality.

Investors remain wary of putting their money into the stock and bond markets due to fresh corporate scandals, a lack of transparency in corporate financial statements, and inadequate enforcement by independent regulatory agencies.

In the face of this continued uncertainty, and what remains a true crisis of confidence for small investors, Congress should act as long-term stewards of the economy and work to rebuild economic confidence.

Unfortunately, the tax cut which was recently enacted will only move us in the opposite direction. It is the wrong medicine for our economy, and may actually hinder future economic growth.

This tax package does not put money in the hands of those most likely to spend it, and will do little to create new jobs. Instead, 57 percent of the benefits will accrue to the top 5 percent of taxpayers.

By 2010, the three tax cuts which have been passed over the last two years will lower the federal tax burden of the top one percent of taxpayers by 17 percent, whereas the bottom 20 percent of taxpayers will see a 9 percent reduction.

These tax cuts have made our tax code dramatically more regressive.

Moreover, the uncertainty created by so many sunsets and phase-outs further detracts from any positive impact the tax cut might have.

Our federal budget deficit is quickly approaching heights not seen in two decades, and the new debt created by these deficits will squeeze federal spending for years to come, and discourage private investment.

These deficits are neither small, nor short-term, as the President promised; instead, they are among the largest budget deficits we have ever seen and represent a structural imbalance between revenue and outlays.

Goldman Sachs recently estimated that this year's combined federal deficit will reach $400 billion, which means that the on-budget deficit will exceed $500 billion, or 5 percent of GDP. The federal debt is projected to rise from $6.7 trillion today to $12 trillion in 2013, an amount which will force us to spend a much larger portion of the federal budget to pay interest costs.

Congress must act to bring the federal budget back into balance by freezing or reversing some of the recent tax cuts. Cutting non-defense discretionary spending simply won't work – we would have to cut such spending by 80 percent or more to plug our current budget hole.

The policies the Administration is currently pursuing will only lead to further job losses.

Congress can and should direct spending toward those areas that will directly create jobs – each $1 billion spent on transportation infrastructure creates over 40,000 new jobs.

During a recent visit to Hong Kong to examine their ports, I was greatly surprised to see how far ahead of the United States they are in transportation technology. There are virtually no ports in this country which match the automation, and efficiency of the facility I saw in Hong Kong.

Even some cities in mainland China now have more modern ports than those in the U.S., and they have an operating high speed rail network, which we have yet to build.

We cannot expect to grow our economy or create new jobs unless we stay with our countries in our efforts to upgrade such infrastructure.

Domestic spending on securing critical facilities and improving homeland security has also been inadequate. New spending on such priorities will improve our security while also creating jobs.

This type of infrastructure spending yields tangible benefits and ensures new investment, whereas tax cuts directed toward wealthy taxpayers have no such impact.

Unfortunately, the Administration has indicated it would like to cut back on such infrastructure spending, and has proposed cutting funding for TEA-21, which is up for reauthorization this year.

Ultimately, the only surefire way to create and sustain new jobs is to grow the economy, and that cannot happen without an increase in consumer demand and investor confidence. The recent tax cut does little on either front.

I would like to thank Senator Dorgan again for allowing me to speak, and look forward to hearing from the expert witnesses he has asked to address the Committee.