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# *Congress of the United States*

## Joint Economic Committee — Minority

106TH CONGRESS

244 FORD HOUSE OFFICE BUILDING
WASHINGTON, DC 20515
202-226-4066
FAX 202-225-0505

HOWARD ROSEN
STAFF DIRECTOR

## OPENING STATEMENT

## CONGRESSMAN PETE STARK, RANKING MEMBER
## THE SUPPLY SIDE REVOLUTION: 20 YEARS LATER

## MARCH 9, 2000

Mr. Chairman, looking back 20 years provides us sufficient evidence to analyze the consequences of economic policies implemented over that period. My hope is that we learn from our experiences and avoid making the same mistakes we made in the past.

The simple fact is that the Laffer-curve supply-side revolution was a complete disaster and American workers are still paying the price for it.

As a consequence of the 1981 tax cut, tax receipts not only did not rise, as we were promised by Dr. Laffer and his infamous napkin, but rather they fell from 19 percent of GDP in 1980 to approximately 17½ percent between 1983 and 1986. Government outlays, which included draconian cuts in social programs in order to pay for the large build up in defense spending, stood at approximately 22½ percent of GDP throughout the period. The result was budget deficits for “as far as the eye could see.”

These ballooning budget deficits placed, and continue to place, a burden on American workers. Growing budget deficits caused the federal debt to triple between 1981 and 1992. Since 1981, American workers have paid approximately $2 trillion in interest on the debt, to finance the so-called “supply-side experiment” of the 1980s.

As this check shows, the only people who have reason to celebrate 20 years of supply side economics are Wall Street and foreign bondholders.

I have some new-found credibility in the area of ballooning budget deficits, as I was recently ranked the most fiscally-responsible Democrat in the House of Representatives by the National Taxpayers Union Foundation. My ranking was exceeded by only five Republicans. I dare say I as ranked higher than other members of this Committee.

In the end, the irony is that the Reagan Administration’s so-called “supply side experiment” was nothing more than a Keynesian expansion of consumer demand, without any improvement in investment. In fact, the “supply-side” policies of the 1980s actually **hurt** the exact investment they were intended to encourage. Despite these tax cuts, or may be because of them, investment in plant and equipment remained flat, at less than 10 percent of GDP, from 1980 to 1992.

The only difference between that Keynesian expansion and others, was that this one was accompanied by a real **decline** in living standards of American workers.  Workers watched the purchasing power of their paychecks fall 7 percent between 1980 and1992.  In addition, the 1981 tax cuts – which favored the wealthy – contributed to a considerable worsening in income inequality.

When the economic history books are written, I believe they will view the 1990s as the real supply side experiment, not the 1980s.  Consider the record:  Since 1992, investment in plant and equipment has grown from less than 9 percent of GDP to almost 14 percent of GDP last year. Productivity growth rates, which averaged1½ percent annually between 1973 and 1995, have been closer to 3 percent annually since 1995.  Just two days ago, the Commerce Department reported that productivity in the non-farm sector grew by 6.4 percent in the forth quarter of last year.  This week's upward revision in the forth quarter's growth rate alone was greater than average productivity growth rates during most of the 1970s and 1980s.

Higher productivity enables wages to rise without igniting inflation.  Real average weekly wages rose 6 percent over the last 7 years.  The unemployment rate has been falling and now stands at approximately 4 percent, and there are no signs of renewed inflation due to the wage gains.  There is a lot of good news in this economy, but there is still a lot which needs to be done to make up for the declines in living standards due to the supply-side experiment of the 1980s.

In contrast to the 1980s, the centerpiece of the last 7 years has been reducing and eliminating the budget deficit.  Given the progress on this front, monetary policy has been more accommodating, allowing interest rates to fall, thereby improving the economic environment for investment. Increased investment has led to higher productivity growth rates, which in turn has enabled wages and salaries to grow without igniting inflation.

Now that's supply-side economics.

One of the most important lessons of the last 20 years is that the best way to increase tax revenues is simply to grow the supply-side of the economy -- as we have been doing since 1993, not by drastically cutting tax rates, as Arthur Laffer suggested.