SEN. JACK REED (RI)
RANKING MEMBER

SEN. EDWARD M. KENNEDY (MA)
SEN. PAUL S. SARBANES (MD)
SEN. JEFF BINGAMAN (NM)
SEN. JON CORZINE (NJ)
REP. FORTNEY PETE STARK (CA)
REP. CAROLYN B. MALONEY (NY)
REP. MELVIN L. WATT (NC)

Congress of the United States

Joint Economic Committee

Democratic Staff

107TH CONGRESS

804 HART SENATE OFFICE BUILDING
WASHINGTON, DC 20510-6602
202-224-0372
FAX 202-224-5568
www.house.gov/jec_democrats/

PATRICIA RUGGLES
STAFF DIRECTOR

Opening Statement
of
Senator Jack Reed, Ranking Member
Joint Economic Committee Hearing on the Economic Outlook
May 23, 2001

Thank you, Mr. Chairman. I want to commend you for holding this hearing. This is a critical time to be examining questions about how the economy is performing and whether we are pursuing the best policies for achieving the kind of sustainable growth that brings prosperity to all of our citizens. It is fitting that our witness is the Chairman of the Council of Economic Advisers, our sister agency, created along with the Joint Economic Committee by the Employment Act of 1946.

Mr. Chairman, over the last 10 years, the United States has experienced its longest economic expansion on record. It has been an expansion in which the unemployment rate has fallen to levels that were last seen 30 years ago, one in which inflation has remained tame, and one in which investment and productivity growth have been particularly strong. One especially noteworthy aspect of this expansion is how well traditionally disadvantaged groups have fared. They have seen job opportunities open up and they have seen their incomes grow, after a couple of decades of stagnation. However, the expansion has hit some speed bumps recently and we want to be sure that we are pursuing policies that keep the economy on track.

I think it is worth reflecting on the policies that helped generate this strong expansion. The policy approach of the 1990s rested on three major pillars: fiscal discipline, investing in people and technology, and opening markets at home and abroad. One of the most important of these pillars was the fiscal discipline that turned massive budget deficits into surpluses and that has created a budget outlook in which we have the opportunity, if we act wisely, to address critical long-term budget challenges such as paying down the national debt and preparing for pressures that will be put on medicare and social security by the retirement of the baby boom.

I look forward to hearing Dr. Hubbard's views on the economic outlook and his analysis of the policies that he believes will best keep the economy on track in the short run and promote prosperity in the long run. But I also hope we can engage in a constructive dialogue about whether the policies being promoted by the Administration are in fact the best policies for achieving those goals. I am particularly concerned about whether this Administration remains committed to sound fiscal policies and the importance of investment in people.

Mr. Chairman, a President's first budget is an important statement of his Administration's priorities, and it seems pretty clear that President Bush is intent on passing a large tax cut. Many of us think that the tax cut is too large, given the uncertainty that exists in the forecasts of the baseline budget surpluses. It leaves too little room for other important national priorities such as education, national defense, and prescription drugs, unless the actual budget surpluses turn out to be much greater than expected. Such an outcome is possible, of course, given the wide range of uncertainty in the CBO budget forecast; but unless the economy recovers quickly and strongly, it seems more likely that the surpluses will be smaller than currently projected rather than larger.

Based on an analysis of its own forecasting record, the CBO says there is a $600 billion margin of error in its baseline surplus estimate just five years out. CBO's forecast assumes a brief slowing in the economy this year, but recent economic data on employment and industrial production suggest that we may experience even slower growth in the short run than CBO assumes. If the tax cut actually provided the stimulus that the budget resolution calls for, we might have some reason to be confident that the economy could get back on track quickly. But stimulus got left out of this tax cut, so the risk would seem to be on the side of slower growth and smaller surpluses in the short run.

In the long run, the size of the surplus depends on how fast the economy grows, and that depends on productivity growth. The most recent data suggest that productivity declined in the first quarter of this year. This probably just reflects the short-term business cycle, in which case it will be short-lived. But if we are, in fact, seeing a decline in long-run trend productivity, the surpluses will be smaller than projected. CBO's estimates suggest that 1 percent per year slower growth in productivity would reduce the 10-year surplus by $2.4 trillion.

So I am interested in Dr. Hubbard's view of how the tax cut will affect the economic and budget outlook, not just over the next 10 years, but over the years immediately following when the baby boom starts to retire. I am worried that we are throwing away the fiscal discipline that was one of the key policy pillars on which the long economic expansion of the past decade was built in order to enact a large tax cut with great haste and little consideration.

Earlier, I mentioned how the recent expansion has helped traditionally disadvantaged groups to do better economically. In addition to pursuing fiscal policies that promoted strong private investment, the previous Administration focused on making work pay by raising the minimum wage and expanding the Earned Income Tax Credit. This Administration's priorities seem to lie in another direction. The key elements of the President's tax plan seem to be lowering the marginal tax rates paid by the small minority of taxpayers at the very top of the income distribution and repealing an estate tax that few Americans face a realistic probability of paying. I hope Dr. Hubbard can help us understand how the Administration's economic plan will affect ordinary Americans.

Finally, I hope we talk about all the ways that government can promote economic prosperity for all Americans, not just by providing incentives through the tax system but also by promoting national saving through fiscal discipline and by encouraging prudent investments in infrastructure and people. One of our roles at the Joint Economic Committee should be to encourage policy discussions about the trade-offs involved in our different policy choices. For example, the decision to cut taxes substantially is at the same time a decision to reduce government saving. Are the incentive effects from the tax cut large enough to offset the loss of national saving? What would be the effect of spending more on education that improved the skills and flexibility of our future workers and less on a tax cut? These are the kinds of questions we should be asking.

I thank the Chairman, and I look forward to Dr. Hubbard's testimony and to opening up a dialogue with him on these important issues.