# Opening Statement of Senator Charles E. Schumer

Chairman, Joint Economic Committee

*"What Should the Federal Government Do to Avoid a Recession?"*

January 16, 2008

Good morning and welcome to the first hearing of the New Year for the Joint Economic Committee. It is also the first Congressional hearing in 2008 to examine the most effective ways to stimulate the U.S. economy, which is teetering on the brink of recession.

We are lucky to have such a distinguished panel who I will introduce in a few minutes. But let me say 'thank you' at the outset to Larry Summers, my friend and the former Treasury Secretary. His willingness to make the time to be here today and think about these difficult issues during the course of his career make this Committee, the Congress and the American people better informed.

I also want to thank the JEC's Vice Chair, Congresswoman Carolyn Maloney from my home state, our ranking Republican, Congressman Jim Saxton; and Senator Ted Kennedy, who is the longest-serving member on the panel.

Economists from Former Federal Reserve Chairman Alan Greenspan to New York Times columnist Paul Krugman are suggesting that we are either in a recession already or on the brink of a recession.

**The discussion of economic stimulus is no longer an academic exercise. In fact, real economic stimulus measures, enacted quickly, could be the last thing between us and a deep or protracted recession. The December downturn in retail sales and new concerns that auto loans and credit card payments could follow the pattern of mortgage payments and head south makes quick action on a stimulus package all the more necessary.**

Even the current Fed Chairman, Ben Bernanke, said last week that the economic outlook for 2008 has worsened; and he listed all of the various forces that were dragging down the economy.

**On Monday I called Chairman Bernanke personally to get his thoughts on the economy. And he said that fiscal stimulus is certainly needed and he would be generally supportive of the Congress and the President enacting such a stimulus. He said that while he wasn't going to endorse a specific plan, if an economic stimulus package was properly designed and enacted so that it enters the economy quickly, it could have a very positive effect on the economy.**

In some ways, much of the bad news could have been averted. Last year, with the subprime mortgage crisis staring us in the face, this Bush administration was unwilling to act to stem that crisis and refused to consider the possibility that a recession was on the horizon. As many economists predicted (this committee included), the subprime mortgage meltdown spilled over into the broader housing market, damaged credit markets, and brought us to the precipice of a recession.

Because of presidential inaction to mitigate the effect of the subprime mortgage meltdown, the economy is now on the edge of recession. This nation desperately needs a strong stimulus package. There are six key points informing our actions as Democrats move forward on a stimulus package:

**First, we want to work <u>with</u> President Bush to get something done quickly that will help middle class American families.** There was much partisanship in last year's Congress, but the state of the economy makes imperative to put that partisanship aside and enact a stimulus package. Speaker Pelosi and Majority Leader Reid sent a letter to the President saying that they want to work with the White House and Republicans in Congress to achieve a stimulus package. And next week's meeting is a good first step toward achieving that goal. **We are prepared and willing to work with the President and Republicans to craft a bipartisan and balanced economic stimulus package.**

**Second, we must enact a stimulus package that is timely, targeted, and temporary.** Economists across the ideological spectrum agree that to deliver effective stimuli, the federal government needs to act with those three principles in mind.

- It should be <u>targeted at the middle-class</u> who will bear the brunt of the economic decline, and who with dollars in their pockets will provide the stimulus to the economy that is much needed.
- It should be <u>timely</u> because we can't introduce policies that won't kick in until long after a recession is already upon us.
- And finally, it should be <u>temporary</u> because we don't want to enact stimulus policies today that would permanently burden our children tomorrow.

**Third, to be effective these proposals need to include a combination of tax cuts and spending stimuli.** Direct injections of cash into the economy through both immediate consumer and government spending are the shots in the arm needed to ward off a recession. In fact, many economists believe that spending stimuli have a greater immediate effect on the economy than tax cuts because the former guarantee that the dollars authorized will be spent, while the latter do not. Both tax cuts and stimulus spending cash infusions are important because they support otherwise declining demand that stems from rising unemployment and falling household incomes. Monetary policy alone cannot address those necessary goals. An effective stimulus package, which includes both expenditures and tax cuts in combination with monetary policy, is the best way to avert a recession.

**Fourth, as we create a stimulus package we must jettison ideological baggage on both sides. The last thing the economy needs right now is inaction while the parties fight old and ongoing battles. Renewing the Bush tax cuts, which don't expire until the end of 2010, should be off the table, because they will thwart any chance of passing a stimulus package.** They are not timely, they are not targeted, and they are not temporary. Some Congressional Republicans may be planning to add these tax cuts to the stimulus package or even make them the centerpiece of the package. The President should resist such attempts especially in the Senate because they will impede or even kill such a package.

**Fifth, on the question of pay-go – I believe that there is a growing consensus, not unanimous, in the Democratic caucus that paying for stimulus now would take away from the economic boost we are seeking to create.** The stimulus, by definition, must have a net of spending over income.

**And sixth, the administration needs to focus on the housing crisis and declining home values. The housing crisis has been the epicenter of this potential recession, and the President's hands-off approach to the housing crisis clearly has not worked.** One foreclosure alone has costly ripple effects throughout neighborhoods and communities, and analysts are predicting two million more foreclosures over the next two years. We should take immediate, common sense measures to prevent unnecessary foreclosures and preserve the economic value of our nation's homes – a significant boost in counseling funds would go a long way in helping non-profits on the ground help families avoid foreclosure.

Fortunately, because of the important work of economists across the ideological spectrum and most recently yesterday by the non-partisan Congressional Budget Office, we know what works and what doesn't when it comes to economic stimulus.

We know that extending unemployment insurance is one of the most effective stimulus proposals because we've deployed it successfully in the past and it gets a lot of "bang for the buck." Lump sum payments to households in the form of tax rebates or tax holidays are also very effective ways to stimulate the economy.

On the other hand, we also know from experience that long-term tax relief for the very top is not successful stimulus.

Some of the important stimulus measures we are considering include: broad-based tax rebates, extending unemployment insurance and food stamps, targeted business tax cuts to stimulate job creation, and federal assistance to states.

**It is long-past time to scrap the old Bush economic playbook of tax cuts for the wealthy as the only economic policy, and replace it with a balanced strategy that lifts the economic fortunes of all American families.**

I hope that this hearing today and subsequent conversations with my colleagues and the administration will help us get to a bipartisan stimulus package that the American people deserve as quickly as possible.

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**JEC Hearing Panelists Include:**

**Dr. Lawrence Summers,** Former U.S. Treasury Secretary
**Lawrence Mishel,** President, Economic Policy Institute
**William W. Beach,** Director, Center for Data Analysis, The Heritage Foundation