COMMITTEE ON FINANCE
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Max Baucus, Chairman
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Floor Statement of Senator Max Baucus (D-Mont.)
Regarding the Economic Recovery Bill

Mr. President, the noted economist John Kenneth Galbraith once wrote: "There are two kinds of economists in the world: Those who don't know the future and those who don't know that they don't know the future."

Mr. President, in that sense, we are all economists now. We are all uncertain about our economic future.

What we do know is that the stakes for our economic future are high.

And we do know that the economy is doing poorly, right now.

During the last eight months, more than 600,000 people lost their jobs.

Housing prices have been falling. Last month, the median home sales price fell nine and a half percent. That's the largest decline since recordkeeping began in 1999. And the experts say that we have not hit bottom yet.

Last month, there were more than 300,000 foreclosures. That's a 12 percent increase from the previous month, and a 27 percent increase from a year before.

Consumer confidence is low. Last December, the Conference Board's Index for consumer confidence was above 90. Now it's below 57.

And last month, retail sales fell by three-tenths of a percent.

This downturn, Congress acted relatively early. In February, on a bipartisan basis, we passed an economic recovery bill.

Included in that bill was a tax rebate that put money in people's pockets. Lots of people spent that money. And the second quarter GDP was larger than it otherwise would have been. But almost all of those checks have now been sent. And the economy is still in bad shape.

We need another economic recovery package. And that's what this bill would provide.

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This bill includes help for workers who have lost their jobs. It includes a further expansion in the number of weeks of unemployment benefits.

In June, Congress passed an extension in the number of weeks of unemployment benefits. That extension provided that those who would exhaust their regular 26 weeks of benefits would become eligible for an additional 13 weeks of benefits.

We tried to add in a provision for another 13 weeks of benefits for those in high-unemployment states. But some of our Colleagues and the President opposed that provision. So it was dropped in conference.

In August, unemployment hit 6.1 percent. That's the highest level in five years.

Here we are in September. And the economy is struggling. It's not easy to find a job that pays well. In October, it is anticipated that 775,000 workers will exhaust the 13 weeks of additional benefits that we provided in June. Another 363,000 workers will exhaust these benefits in November or December. That's a total of more than a million workers.

This bill would provide for an extra seven weeks of benefits in all states.

And then it would make right what we could not do earlier this year. It would provide an additional 13 weeks of benefits for individuals who live in states with unemployment that is higher than six percent. At the moment, that's 18 states.

This bill would also help areas that have been hit by federally-declared disasters. Under this bill, there would not be a waiting-week penalty when state extended unemployment benefits kick in, including in times of disaster.

This bill would provide much-needed help for overburdened state unemployment systems.

We are a society that cares about all of its people. In hard economic times, giving additional weeks of unemployment benefits to people who cannot find a job is just the right thing to do.

But there is another reason to do so. Providing extra weeks of unemployment benefits will help to stimulate our economy. People who are unemployed lose the income from their jobs. They generally don't have the income that they need. So if they receive more money, they are likely to spend it.

When these unemployed workers spend their money, the folks who create the goods and services that they buy will need more workers. And those workers will spend the earnings that they get. And this cycle goes on. Economists call this the multiplier effect.

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The chief economist and cofounder of Moody's Economy is Mark Zandi. He estimates that for every dollar of new unemployment benefits, the economy will grow by $1.64. Compared to other options to stimulate the economy, this option has a high bang for the buck.

At times like these, we need to extend the number of weeks of unemployment benefits.

And to help strengthen our economy, we also need to provide fiscal relief to state governments.

The economy of a state has a major effect on the state government's budget. When a state's economy weakens, the state government's revenues generally fall off. In addition, as unemployment increases and incomes decline, more people become eligible for assistance programs like Medicaid. And that increases the demand for state spending.

Almost all of the states have balanced budget requirements. During a time of economic weakness, when revenues drop and the need for expenditures increases, states may have to raise taxes or cut other spending in order to keep their budgets balanced. Unfortunately, that's precisely the wrong fiscal policy.

If a state raises taxes, it reduces the purchasing power of its residents and firms. And that can lead to further economic decline.

Reductions in state spending also lower the purchasing power of those persons or firms who would receive the state funds.

Unfortunately, the current economic weakness is pressing many states to either raise taxes or cut spending. According to the Center on Budget and Policy Priorities, 30 states had to take actions to reduce their budget deficits for fiscal year 2009, which began on July 1 of this year. And of these 30 states, 13 are facing additional budgetary shortfalls that appeared after they enacted their budgets. These 30 states are facing about $52 billion of shortfalls. If states raise taxes or cut spending by that much, it would place a significant drag on the national economy.

During the last economic downturn, Congress increased the Federal matching rate for the Medicaid program by about three percentage points for five quarters. This freed up $10 billion for the states so that they did not have to cut Medicaid benefits. And that helped states to avoid cutting other expenditures or raising taxes. Most economists thought that this fiscal assistance measure for the states worked well.

In February, the Finance Committee reported out an economic recovery bill that included state fiscal assistance in the form of an increase in the Medicaid matching rate. Unfortunately, that provision was not agreed to on the Senate floor.

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But the fiscal situation of the states is now worse than it was at the beginning of the year. And so, we should try to help the states. So this bill includes state fiscal relief in the form of an increase in the Medicaid matching rate.

This bill contains an across-the-board temporary increase of four percentage points in the Federal Medicaid matching rate. That would provide every state with much-needed help. At a time of unprecedented fiscal crisis, I think that every state deserves this level of help.

Mr. President, these are historic economic times. We are all uncertain about the economic future. The stakes are high.

Let us not be found wanting. Let us act to bolster the economy's recovery. And let vote to advance this bill.

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