



# Committee On Finance

Max Baucus, Chairman

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**For Immediate Release**

**Tuesday, November 13, 2001**

Contacts: Michael Siegel, Joshua LeVasseur

202-224-4515

## Opening Statement by Senator Max Baucus The Economic Recovery and Assistance for American Workers Act

This is a sobering time. Our nation is at war, overseas and at home. Like all Americans, we're struggling to respond. To pull together. To assume our responsibilities.

Among other things, we in this chamber have a responsibility to help get the economy back on track. The September 11<sup>th</sup> attacks took a bad economic situation and made it significantly worse.

We had virtually no economic growth in the second quarter and negative growth in the third quarter. In October, unemployment jumped from 4.9% to 5.4%. This was the largest jump since May of 1980. We know of 638,000 layoffs of workers that have been announced since September 11<sup>th</sup>.

Manufacturing has been particularly hard hit. Last month, manufacturing lost 142,000 jobs. This was the 15<sup>th</sup> consecutive month that manufacturing jobs had dropped. Since July of last year, manufacturing has lost an incredible 1.3 million jobs. Manufacturing employment has now fallen to its lowest levels since November, 1965.

The problems are not limited to the manufacturing sector. In October, non-manufacturing industries experience the most dramatic slowdown in business activity since a report by the National Association of Purchasing Managers began in 1997.

Agricultural producers are hurting too. Net farm business income was at a ten-year low in 1999 and 2000. Still, unless government assistance is continued, net farm income in 2001 is actually projected to be lower than farm income in 1999 and 2000. And the most acute problems are faced by farmers whose farms have been hit by floods, drought, tornadoes, and other natural disasters.

Finally, the economies of New York and the surrounding regions have taken a severe blow

from the events of September 11<sup>th</sup>. And it's not just the economy of the New York region that takes a hit. In our highly inter-dependent economy, the rest of the country takes a hit as well.

We are, in short, in a recession. What can we do?

There's monetary policy. Last week, the Federal Reserve Board cut short-term interest rates for the 10<sup>th</sup> time this year. More cuts may follow. But monetary policy does not appear to be enough. We also have to pass legislation to stimulate the economy through fiscal policy. There's no magic recipe that will send us roaring back to double-digit growth. On some points, reasonable people disagree.

Nevertheless, there are some sensible guidelines to follow. Most significantly, the bipartisan leaders of the House and Senate Budget committees have provided us with important guidance. A few weeks ago, they issued principles for economic stimulus. These are sound principles, that can serve as the basis for action.

Let me try to put it in my own words. The bill should be temporary. It should not cost much over the long run, to keep long-term interest rates down. And it should get money into the hands of those who'll spend it quickly. Consumers, who will spend it on goods and services. Businesses, that will spend it on capital equipment.

One more point. In addition to providing an economic stimulus, we have to lend a hand to the Americans who are suffering, from the terrorist attacks or from the recession. At a time like this, it's important to remember that we're all in this together. That's what we have tried to do in the bill that we are presenting to the Senate today. And I think we have succeeded.

The bill has six main elements, every one of which is important.

First, we provide a further tax rebate. All told, there are about 130 million taxpayers. When the checks went out this past summer, eighty-two million got a full rebate. Individuals got \$300; families, \$600. Another 14 million taxpayers got a partial rebate—that is, less than the full \$300 or \$600. Another 34 million taxpayers got no rebate at all. Why the difference? The rebate was limited by the amount that people paid in income taxes. But remember. If a family paid income taxes of less than \$600, they didn't get a full rebate. For a family of four, that would be at an income of about \$30,000. If they made less than that, they didn't get a full rebate. In many cases, they didn't get any rebate at all.

So here's what the bill would do. It would provide a second round of tax rebates, for people who pay payroll taxes but got only a partial rebate or no rebate at all. As a result, by the time the second round of checks go out, every one of the 130 million people who pay federal taxes will have received a full rebate. To some extent, this is a matter of simple fairness. But it's also more than that. The people who didn't get full rebates earlier this summer tend to have relatively low incomes. They are likely to spend a high proportion of any new income that they get. That will be a direct stimulus to the economy.

Second, we establish a series of temporary tax incentives. Most significantly, we provide special tax depreciation deductions, for a limited time, to encourage businesses to invest in new plants and equipment. As it now stands, businesses deduct the cost of new plants and equipment over a period of years. We add a temporary depreciation “bonus,” of 10%, for investments that are made before the end of next year. Senators Hatch and others have suggested that we make the percentage higher than 10%, and I am open to that if it fits into the framework of the overall bill.

The accelerated depreciation deduction will have two effects. It will encourage businesses to invest sooner rather than later and that, in turn, will directly stimulate the economy. Further, to the extent that some of the additional investments could be put to use right away, it will increase productivity. We also provide an even larger depreciation deduction for small businesses, by increasing what is called the “expensing” deduction under section 179. Again, this deduction is available only for new investments made in the next twelve months.

Finally, we allow companies a longer period to carry back their net operating losses. This change is needed to make the first two investment incentives work efficiently. It also provides a modest break to companies that are struggling to stay on their feet. Those are the nationwide investment incentives through tax cuts.

The third section of the bill provides tax relief to the area in lower Manhattan that was devastated by the terrorist attacks of September 11<sup>th</sup>.

Yesterday’s crash has rekindled our memory of what happened on September 11. The death. The destruction. The horror. The September attacks also had a huge economic effect on New York City. Fifteen thousand businesses were destroyed. One-hundred and twenty-five thousand workers were displaced. Every American wants to help, from those who live across the river in New Jersey to those who live across the country in Montana.

Let me explain how we came up with our package. After the attacks, Senators Schumer, Clinton, Torricelli, and Corzine, along with Governor Pataki, approached me with a series of tax proposals for New York City. We rejected several of the proposals. We revised others. Eventually, after a lot of give and take, we were able to agree on a package that is fair, targeted, and practical.

The basic idea is simple. We provide temporary tax incentives to encourage business to either stayed in lower Manhattan, or to relocate in New York City.

There are three main provisions. First, we expand the Work Opportunity Tax Credit, which exists under current law to encourage employers to hire certain categories of individuals. We create a new category, for people who find jobs in lower Manhattan, or who used to work there and relocate to another part of New York City.

Second, we allow enhanced cost recovery to encourage businesses that lost property in the attacks to relocate in New York City.

Third, we authorize the issuance of \$10 billion in tax exempt private activity bonds to rebuild the area damaged by the attacks. As a related matter, we include an amendment, offered by Senator Torricelli based on a bill that I wrote with Senator Grassley. It provides tax relief to the victims of the terrorist attacks, including both the attacks of September 11<sup>th</sup> and the Oklahoma City bombing.

The final provision in this part of the bill allows Indian tribes to issue additional types of tax-exempt bonds to promote economic development. This provision, obviously, is not related to the September 11<sup>th</sup> attacks or the recession. But it will help promote economic development in a part of America—Indian Country—that has been left behind for far too long.

Let me move on to the fourth section of the bill, unemployment benefits. We all understand the problem. In October, we had the biggest jump in the unemployment rate in 20 years. Work is harder to keep and even harder to find. In response, we take an approach that Congress has adopted taken many, many, times before. We extend unemployment benefits, by 13 weeks.

We also take a few additional steps. We temporarily increase unemployment benefits, by the greater of 15% or \$25 a week. And we make modest and temporary improvements in the operation of the unemployment insurance program. Specifically, we update the reporting period. And we provide better coverage for people seeking part-time work.

Others argue that unemployment insurance is a poor economic stimulus. This surprising argument is contrary to the history of the program and to the overwhelming economic evidence.

Alan Krueger, of Princeton University, put it this way:

“Extending unemployment compensation is, in fact, likely to be a more successful policy for stimulating aggregate demand than many other tax/transfer changes.”

A similar point was recently made by Joseph Stiglitz, co-winner of the 2001 Nobel Prize for economics. He said:

“First, we should extend the duration and magnitude of the benefits we provide to our unemployed .... This is not only the fairest proposal, but also the most effective.”

And senior economist Jane Gravelle, of the non-partisan Congressional Research Service recently said this:

“Extending unemployment compensation is, in fact, likely to be a more successful policy

for stimulated aggregate demand than many other tax/transfer changes.”

Remember. One of the main reasons that we have an unemployment insurance program is to provide economic stimulus during times of economic downturn. Explaining the program in 1934, President Roosevelt said that it will “act as a stabilizing device in our economic structure and as a method of retarding the rapid downward spiral curve and the onset of severe economic crisis.”

To put it bluntly, people who have lost their jobs, and are struggling to get by, are likely to spend any additional money that they get, providing a direct stimulus to the economy

The next section of the bill helps people maintain health insurance coverage for themselves and their families.

As unemployment rises, the number of uninsured Americans will also rise. In the recession of the early 1990s, more than half of the workers who became unemployed also became uninsured. My proposal responds to this crisis in several ways.

The first is through the so-called “COBRA” program. That program was enacted in 1987. It allows people to maintain their employer-provided health insurance coverage for 18 months after they leave a job, as long as they pay the full premiums themselves. But that’s the problem. Simply put, COBRA premiums are very expensive. On average, the cost for individual coverage is \$2700 a year. For family coverage, it’s \$7200, or almost \$600 a month. The average unemployment benefit is \$231 a week. As a result, only about 18 percent of the workers who are qualified to maintain their health insurance coverage under COBRA actually go ahead and do so.

So here’s what we do. First, we provide a 75% subsidy for COBRA coverage. In essence, the federal government would pay the portion of the premium that previously had been paid by the employer.

Second, we give states funds and flexibility to pay the remaining 25% for people with very low incomes.

Third, we give states funds and flexibility to provide Medicaid coverage for workers who are not eligible for the COBRA program.

Fourth, we increase the matching rate for State Medicaid coverage, to make it easier for states to maintain coverage at a time when state budgets are being squeezed. Forty-nine states face balanced budget requirements that are likely to cause them to increase taxes and cut spending, even though such steps could deepen the recession. The increase in the matching rate provides fiscal relief for states at a time when it’s badly needed.

All told, these proposals will maintain health insurance for millions of workers who have lost their jobs or stand to lose them in the difficult months ahead. Like unemployment insurance, this proposal has been criticized pretty sharply. Critics argue that covering health insurance costs will not provide an economic stimulus.

I grant that the case is not as straightforward here as it is for unemployment insurance. But it's still strong. In any event, this part of the proposal is not just designed to provide an economic stimulus. It's also designed to help people who have lost their jobs to the recession.

Critics also argue that the proposal is an indirect way to establish a new entitlement program. It's not. We are responding to a temporary crisis with a temporary solution. The program ends after one year, on December 31, 2002.

Finally, critics argue that the program will be slow and cumbersome. But let's be candid. There are several competing proposals to provide temporary health care coverage. Each raises the same issues. Whether we're talking about direct payments, tax credits, or block grants to states, we have to come up with a system that works quickly and effectively. If someone can come up with a better approach, that accomplishes our goal, I'm willing to listen.

Let me now turn to a section of the bill that I think is extremely important: the provisions for agriculture and rural economic development.

To set the stage, let me remind colleagues once again about the state of the agricultural economy. We've had an unprecedented streak of bad weather and bad economic conditions.

Farmers in parts of the South and northern-tier states have been particularly hard hit. Although some sectors and some regions have begun to recover, farmers' overall earnings from their farming operations (absent government payments) are down sharply.

The current difficulties could not come at a worse time. And a downturn in farm income does not just impact farmers; it wreaks havoc in the rural communities that depend upon them. Farmers in economic distress are not able to make their usual purchases of seed and fertilizer, not to mention food and clothing. This puts the agricultural sector at considerable risk.

To ensure that the stimulus plan also provides benefits to agriculture-dependent economies in the South, Midwest, and northern-tier, the bill extends three programs that have been critical to shoring up farm income over the last three years.

Now, some of my colleagues have attacked the agriculture section of the bill. They've poked fun at it, circulating pictures of various fruits and vegetables. Farmers and ranchers across the country may not find this all so amusing. They may wonder why the economic problems of ailing corporations demand immediate action, but the economic problems of farmers and ranchers deserve only derision.

Let me be blunt. My constituents, including farmers and ranchers suffering through another disaster, deserve economic relief every bit as much as Americans from urban areas.

\_\_\_\_\_ Finally, to complete my summary of the bill, we also extend various tax and trade provisions that are scheduled to expire under current law, and make a handful of additional changes to the Tax Code.

Mr. President, I believe that this bill will help us achieve our objective of providing a fiscal stimulus for the economy. It's temporary. It's carefully targeted. It will increase both business investment and consumer demand.

And, perhaps more importantly, it will extend a helping hand to the people who've lost their jobs and risk losing their health insurance. It is, on balance, a very solid bill that deserves support in this chamber.

Time is critical. I hope that we can complete debate quickly, so that we have a chance to wrap up our differences with the House before Thanksgiving.

I understand that others will disagree with my description of the bill. They'll say that it falls short. They'll argue that we need more tax cuts. That we don't need to do so much for the unemployed. That there are better ways to cover health insurance. They'll question whether we should have any agriculture provisions in this bill at all. I say, let's have that debate. And let's try to resolve our differences.

After all, the American people are suffering. They've been hit with shock, after shock, after shock. They look to us for leadership. It's time to provide it. As the President said, quoting the heros who jumped the hijackers over Pennsylvania, let's roll.