Committee On Finance

Max Baucus, Ranking Member

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Contacts: Laura Hayes, Lara Birkes
202-224-4515

SENATE FINANCE COMMITTEE HEARING ON ECONOMIC GROWTH AND JOB CREATION: INCENTIVES FOR CONSUMPTION

The President and Treasury Secretary Snow have said that they want to see more employers put "Help Wanted" signs up. I agree, but all across this nation there is a different kind of "Help Wanted" sign out.

Our nation's businesses continue to operate at three-fourths of their capacity. That means that they are not producing all of the goods and services that they can. And, last week the private outplacement firm, Challenger Gray & Christmas, reported that layoff announcements at U.S. firms surged 42 percent in January over December's levels. We simply will not see the "Help Wanted" signs that the President wants until we do something about the "Help Wanted" signs that are already out. So what do we do?

The Federal Reserve has done its best to revive the sluggish economy. Last year, the Fed lowered the short-term interest rate eleven times, down to 1.25 percent. There is not much more rate to cut. So, we turn to fiscal policy - tax cuts and spending increases.

Today we are focusing on ways we can strengthen the economy by increasing consumption. Tomorrow, we will look at long-term economic growth by examining incentives to increase investment.

It is important to recognize that there is no one size fits all solution for the economy. When the economy is weak – as is the case right now – stimulus is needed. And stimulus can only come about if consumers and businesses spend more money now. Consumption – not savings.

To encourage spending may sound wrong. We have been taught the virtues of saving. But when the economy is not operating at full capacity, only increases in spending will increase demand, so that businesses hire more workers and produce more goods and services. Now when the economy gets back to full employment and peak capacity, the situation will be completely different. Everyone who wants to work will have a job, businesses are producing all they can.

To avoid inflation and encourage economic growth, we need higher productivity and new capacity. That is when we need to provide savings which businesses can use to invest in new facilities and equipment. And the new plant and equipment can produce more goods and services. Savings – not consumption.

Last year there was bipartisan agreement from both the House and Senate Budget Committees on a set of principles for short-term stimulus. They agreed that any economic stimulus proposal must be: Timely. Take effect quickly. Be sizable. Be targeted at consumers and businesses who will spend it. Get the most bang for the buck. End in a year. And not increase longer-term budget deficits.

These are good, common-sense principles. And we should use them to guide our choices for economic stimulus right now. So what are the best ways to stimulate consumption? There are three that stand out.

First, get aid to the states. When there is a recession or a weak economy, states face large deficits. Starting in 2002, states are facing deficits of at least $171 billion. For the current fiscal year, the projected deficits for the states are $70-85 billion.

Almost all states have balanced budget requirements. So when faced with deficits, they must lay off workers, cut spending on programs, or raise taxes. These actions only make the economy weaker. And states are being forced to take such actions: Sixteen Governors – Republicans and Democrats – have already proposed tax increases to keep their upcoming budgets in balance.

States are cutting Medicaid. Massachusetts will cut about 50,000 people from Medicaid coverage. And California is considering eliminating Medicaid health care coverage for 500,000 low-income parents. Of these, 200,000 have income levels below 60 percent of the poverty line. Oregon has not only cut education funding and Medicaid funding, but they have let prisoners go free in order to balance the budget.

We need to get aid to the states. We can pass all of the Federal tax cuts we want, but what good do they do for the American taxpayer if we are forcing states to raise taxes or cut education funding.

Second, we need to extend unemployment benefits to the people we left out in January. We know the labor market is tough right now. There simply are not enough jobs. More than 2 million jobs have been lost since March of 2001. One sign of the sluggish economy is, according to the Conference Board, that the number of help wanted ads in newspapers is at the lowest level since the Kennedy Administration. Let me repeat, the fewest help wanted ads in newspapers since the Kennedy Administration. Forty years.

When the economy is bad, we extend unemployment benefits. America has a tradition of helping those in need. We extend unemployment benefits to help these families pay the rent and put food on the table. It is the compassionate thing to do. It is also good for the economy.

We are talking about families on the edge, just barely getting by. When we give them aid, they spend it quickly. In fact, a Department of Labor study found that every dollar in unemployment benefits results in $2.15 in GDP. For every dollar spent on unemployment benefits – we more than double the impact on the economy.

In January, we extended unemployment benefits through the end of May. Unfortunately, we left out about one million Americans. These are displaced workers who have already received an initial round of extended benefits and still cannot find work. They have exhausted their eligibility. We should extend their benefits.

Third, we should give a tax cut to those who will spend it. I want to get money to the schoolteacher in Shelby, Montana and the police officer in Billings. Taxes are taxes whether they are payroll taxes or income taxes. We must get money into the hands of all consumers.

We should eliminate taxes on the first $3,000 of wage income. 110 million working taxpayers would see their paychecks increase. Forty-one billion dollars would be put into the economy.

I know there will be a lot of talk about accelerating many of the tax cuts that were enacted in 2001. Let me be very clear, I am not opposed to accelerating some of the tax cuts. But any plan to accelerate the tax cuts must include acceleration of marriage penalty relief for earned income tax credit recipients and the refundable portion of the child tax credit so that we can expand the group of consumers who will pump money into the economy.

So, there are three ways we can stimulate the economy. Aid to the states, extend unemployment benefits to those we left out in January and give a tax cut that will stimulate consumer spending.

With these proposals in mind, it is my hope that the Finance Committee can put together a broad, bipartisan plan to strengthen the economy. This is no time for partisanship.