



Committee On Finance

Max Baucus, Ranking Member

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HEARING ON ECONOMIC GROWTH AND JOB CREATION: INVESTMENT INCENTIVES

Senator Gramm, welcome back to the Finance Committee. And Chairman Panetta, thank you for sharing your views with us today.

Yesterday our hearing focused on consumption. Short-term spending incentives to boost the economy. Today, we are looking at ways to increase investment. But frankly, I first want to say that I'm worried. I'm worried about where we are heading. Two years ago we were squarely on a path of fiscal discipline. In fact, we were worried about what we were going to do after we paid off the national debt. I wish we still had that worry. But we do not have that luxury.

So, why are we here today. We are here to talk about investment because investment creates economic growth. And I believe there are two ways we should do this.

First, we should provide incentives for investment in the tax code for small businesses. Small businesses are the backbone of the American economy. The vast majority of new jobs are created by small businesses. In my state of Montana, small businesses comprise 98 percent of all businesses. They employ 70 percent of Montana's employees. So, if we want to create new jobs through economic growth, we must help small businesses. We can help them by increasing the amount small businesses can expense immediately when they buy new equipment. This will create a strong incentive for small businesses to purchase new equipment by increasing their rate of return.

We should help small businesses provide health insurance for their employees. Small business owners have told me that health insurance premiums are going through the roof. The increases are hitting small businesses much harder because they do not have the bargaining power that large companies have and these high costs take money away from investing in new facilities.

Right now, small businesses are forced to make choices they do not want to make. Do

they shift more of the cost of health insurance to employees? Do they provide health insurance at all? If they do, will they be able to afford to make new investments in the business?

My colleague, Senator Snowe, held a hearing last week on this very issue. The testimony was troubling. Health insurance premiums for companies with ten or fewer employees grew by 16.5% in 2001. According to the Small Business Administration, high premiums are the reason only half as many small firms provide health insurance coverage compared to large firms. We need to help small businesses keep health insurance coverage.

We should increase the depreciation deduction for the year that a business purchases new equipment. In 2001, we saw a sharp drop in direct investment by business. In 2002 we changed the law to give a larger first year deduction. The drop in direct investment leveled, and even increased slightly. We need to provide an increase in the bonus depreciation deduction for 2003 to encourage more direct investment.

The second way is by being fiscally disciplined with our Federal budget. That means we increase our national savings – which is the sum of savings in the private sector and saving by governments – or, we prevent our national savings from decreasing.

One of the best ways to prevent reductions in national savings is to avoid large long-term budget deficits. But the budget recently proposed by the President is in deficit each year. And it does not yet include any funds for a war with Iraq. If we go to war, how long will it be? One month? One year? Two years? We cannot ignore the possibility of war. We need to leave ourselves room in the budget to cover these potential costs.

It is also critical that we extend the three key 60-vote points-of-order which are set to expire in just a few months – on April 15th. Extension of these points-of-order ensures fiscal responsibility by preventing enactment of legislation that would substantially increase budget deficits in the near-term and the longer-term.

So, we can encourage investment with tax cuts. Especially tax cuts for small businesses. And we can encourage investment by reducing deficits and being fiscally responsible. I believe this is how we can improve our nation's long-term economic growth.

Mr. Chairman, thank you for holding these hearings on ways to strengthen the economy. I look forward to hearing from today's witnesses.