

**ADDRESSING THE NEED FOR AN
ECONOMIC STIMULUS PACKAGE**

HEARING

BEFORE THE

**COMMITTEE ON FINANCE
UNITED STATES SENATE**

ONE HUNDRED SEVENTH CONGRESS

FIRST SESSION

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OCTOBER 3, 2001
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ADDRESSING THE NEED FOR AN ECONOMIC STIMULUS PACKAGE

WEDNESDAY, OCTOBER 3, 2001

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, DC.

The hearing was convened, pursuant to notice, at 11:04 a.m., in room 215, Dirksen Senate Office Building, Hon. Max Baucus (chairman of the committee) presiding.

Also present: Senators Breaux, Conrad, Graham, Lincoln, Grassley, Murkowski, Nickles, Gramm, Thompson, Snowe, Kyl, and Thomas.

OPENING STATEMENT OF HON. MAX BAUCUS, A U.S. SENATOR FROM MONTANA, CHAIRMAN, COMMITTEE ON FINANCE

The CHAIRMAN. The committee will come to order.

This is the first public meeting of this committee since the September 11th terrorist attacks. I know that members share with all Americans the sorrow, the frustration, and anger of the attacks.

We also share a sense of pride in our country to bring terrorists to justice, our resolve to become stronger, to grow out of this, and a sense of responsibility to continue on with the Nation's business.

For this committee, that means the responsibility to think very carefully about our economic situation. That is why we are here today. We are here to determine the strengths and weaknesses of the economy before the terrorist attacks, what the state of play is since the attacks, that is, today.

What might the short- and long-term effects be? Does the economy need a fiscal jump-start stimulus, and if so, what form should it take?

Let me, briefly, explain how we approached these questions thus far. I have met with Senator Grassley, with Ways and Means Committee Chairman Thomas and with Ranking Member Rangel, and, as you know, Mr. Secretary, with you.

It was a very good, cordial meeting. It was the first time in a long time with all five of us together in the same room, the same place, all smiling. It was a very good meeting because of the sense that we have to work together, and should work together, and want to work together to find answers to these questions.

In addition, I have had meetings with Senator Grassley and Congressmen Thomas and Rangel, with the Budget Four, that is, Mr. Spratt, Mr. Nyussel, Senator Conrad, and Senator Domenici. It is the same effort, also, with the administration present to find commonality in how we resolve this.

As you also know, Mr. Secretary, this committee met in closed session with Chairman Greenspan and with the former Treasury Secretary, your predecessor, Bob Rubin, to again go to the next level of questions and answers and find a solution here on a totally bipartisan basis. A very good discussion. We are continuing those meetings this week, and will into next.

I would like to briefly share, though, the key conclusions that we have drawn thus far. First, clearly, we need to act calmly, very carefully, very sensibly because the times in which we live are a bit more uncertain than they were preceding September 11th.

It is difficult to know what events may or may not occur in the next several weeks, months, quarters, next year. We have to, therefore, and should, responsibly act even more carefully, calmly, and deliberately than we have before.

Second, if we do need a stimulus package, we need to focus on measures that can be implemented immediately. That is, true stimulus, up front actions that do have a direct positive effect on the economy.

We need to keep the long-term health of our economy in mind. That is, not build into budgets increases that would result in increases in deficits or increases in long-term rates. That is very important to us. And we need to provide a stimulus that actually will jump-start weak sectors of the economy. It is important to keep that in mind.

A third basic principle, is we must act together, partisanship aside, and not act precipitously, but carefully, together. In order to have an impact that will make a difference, Congress must act quickly, and with the President.

That also means we will probably have to leave behind some of our favorite partisan proposals and, rather, act together on proposals that can attract the support of all of us; both Houses, both parties, both ends of Pennsylvania Avenue.

If there is a decision to act, I believe that a stimulus package should include the following three elements. First, we should temporarily extend unemployment benefits in anticipation of the growing number of layoffs and, in addition, fill in a few critical gaps in coverage.

Second, we should provide temporary payroll tax relief for the roughly 30 million taxpayers who did not get a benefit this summer from the earlier tax rebate.

Third, we should address the weakness of the business sector by temporarily encouraging new investments. We might be able to do this through tax incentives such as increased expensing or bonus depreciation.

That is my current thinking. I think it reflects the views of a large number of Senators and so-called outside experts, as well as the many telephone calls I have had with many in the administration.

Now, there will be many other ideas. There should be other ideas. After all, we are a democracy. I think it is important that we get all of those ideas on the table, that we flesh them out and see which ones make the most sense, given the criteria which I earlier mentioned and which I think most of us agree on.

So, I very much welcome you, Mr. Secretary. You have done a great job. You have been a great Secretary. We very much appreciate your service to America. I think you have got the confidence of the administration and of us, and we very much look forward to what you have to say because you are the man, you are the person here.

I do not want to put too much of a burden on you, but I want you to know how much we appreciate where you are. You are presiding over an economy at a time of great uncertainty. Your job is not easy.

You certainly did not expect this when you signed on, but you have stepped up in a terrific manner and the country is very grateful for your service. We are very fortunate, today, to hear your advice as you explore with us where we go from here.

I also want to very much thank my good friend, Senator Grassley, who is equally part of this process. Since the beginning of this year we have been working together in a spirit of cooperation. I very much appreciate your help, Senator. You have done great. Thank you.

**OPENING STATEMENT OF HON. CHARLES E. GRASSLEY, A U.S.
SENATOR FROM IOWA**

Senator GRASSLEY. Thank you, Mr. Chairman, both for your comments and for our cooperation, and also for this hearing.

I think you have described a thoughtful, and necessarily deliberate, process that is in place to answer a lot of questions and reach the conclusions. I think you ought to be applauded for that, as I know it will continue until we make a decision if there is going to be a product, and what that product will be.

You heard the Chairman use the words that we need to think very carefully. I agree with that. He and I, not together, but separately, have kind of taken a Hippocratic oath, first do no harm. I think that that is a very good sort of approach.

Without divulging anything that was said yesterday, we did have a meeting of members of this committee for people to lay out. I think it is fair to say, from both sides of the aisle, that I heard some caution. So, that is how we approach this thing, and will hopefully end up at the same place.

So with that as background, then I think that I will lay out a few of the principles and concerns I have, not quite as specific as what the Chairman has just done.

Obviously, the tragic events of September the 11th have changed—and hopefully temporarily—the way that we do the people's business. The President has provided great leadership. I hope that he feels that the Congress has responded appropriately. We need to continue this working relationship with our President even as we pursue the issues before this committee.

It is important for the committee, even in these unusual times, to play its essential role in addressing the question of economic stimulus, or anything that is done by the Senate within the jurisdiction of this committee.

I, for one, want to guarantee, Chairman Baucus, that I will support him in his insistence that the Finance Committee play its tra-

ditional role in any economic stimulus package, worker relief package, or other things.

I would make four points. In terms of getting our economic house in order, it seems to me more important than the economic stimulus package is the confidence that people have in the country.

There are two pieces of legislation before Congress right now that we need to pass to get this confidence built up: the airline safety bill and the anti-terrorism legislation.

The second point I would make: the size of a stimulus package must not cause more economic harm than good. That is, if a large package will contribute to a tighter money supply on net, then it seems to me we would be much worse. Somebody on this committee will make that point stronger than I do, as you heard Senator Conrad make that point so many times. It would be a mistake if we had that long-term negative impact.

Three, out of political necessity, it seems to me we are going to have to divide the package between some investment incentives and consumer demand. Based on Chairman Greenspan's advice, I think this ought to be heavily weighted towards business investment incentives.

Fourth, every proposal will have to overcome a high burden of proof that it is effective, efficient, and expeditious as an economic stimulus.

In regard to the first point, we should keep our eye on the ball here, Mr. Secretary. Chairman Greenspan and former Secretary Rubin said the most important thing by far that we could do in the wake of the September 11th tragedy is to restore the confidence of the American people, particularly the flying public. To that end, then we need the two bills that I have already referred to.

If we cannot respond on anti-terrorism and airline safety, it seems to me no stimulus package will help, no matter how big. So that is job number one, get the anti-terrorism and the airline safety bill out of here as quickly as possible and to the President, the second point that I have already outlined.

We need to gauge the overall macro economic benefit of any stimulus package. Again, I want to refer to Mr. Greenspan's advice. He talked about a \$100 billion package, 1 percent of the economy, as a credible benchmark for stimulus.

He also noted that, already in the stimulus pipeline, would be about \$55 billion of airline relief, New York City rebuilding, and additional defense needs. So I gather from Chairman Greenspan, we are talking about another \$45 to 50 billion if we do something. He would always precondition anything we said with, we have got to get a little further away from September the 11th to make sure.

We have to be careful then that we do not overdo the stimulus package to, again, make the point that I made before, that interest rates, long-term, might be negatively harmed.

Further explanation on my third point. Assuming that we are comfortable with the size of a proposed stimulus, we would need to decide the mix of purposes. That is, we will probably need some on the consumer demand side and the investment incentive side. I favor the investment incentive side, but I realize that they will probably have to address both consumer spending and business investment.

The fourth, and final, point deals with a specific proposal of the stimulus package. If we have agreement on the allocation between consumer demand and business investment, then we will need to design the specific policy proposals to carry out these objectives.

I think that we all—but I want to say that I am going to—need to carefully scrutinize these from the “no long-term harm but immediate economic stimulus impact.” I think the burden of proof ought to be a high one. To make the grade, the proposal needs to be effective, efficient, expeditious.

The good news, is if we get to this stage there are some time-tested business incentives, like raising expensing amounts for small business. There are other measures that could be helpful on the business side.

But, again, they will face a heavy burden of proof. Any consumer spending will face the same high level of scrutiny. Now is not the time to dress up either side’s political agenda as stimulus.

I think, if the President feels we need to have one, this is where the Presidential leadership is so important to make sure that we have got this balance between the advice of Chairman Greenspan and people in the Congress that have the potential to make a Christmas tree of spending items out of this potential economic stimulus bill.

Then we had the advice from the staff of our good Chairman of the Senate Budget Committee, that a stimulus larger than \$50 billion could send us into deficit spending in the year 2002. That ought to be a concern of ours as well.

Before I say finally, Mr. Chairman and Mr. Secretary, there is one other thing that will not cost any money that you will hear people say better than I can say it, and that is the extent to which there is some lack of confidence as far as the tax bill the President just signed because it is out there a lot of years. Making that permanent, we ought to consider the advantage of that as well, because there is no cost to that in the near term.

The President is exercising leadership. He, like everyone else, recognizes that we have an ailing economy. The President wants a stimulus package that is well thought out and bipartisan. The country expects us, as their representatives, to work with the President on this problem.

If we are willing to focus on a serious package that is effective, efficient, and expeditious, then we can get there. But if we have a Christmas tree in this effort or use it to advance partisan agendas, I think, then, it is doomed. No product is better than a bad product.

So, Secretary O’Neill, you are not going to have an easy job as you walk this fine line between a political instrument and the advice of Chairman Greenspan, and I assume you like his advice.

The CHAIRMAN. Thank you very much, Senator.

[The prepared statement of Senator Grassley appears in the appendix.]

The CHAIRMAN. Mr. Secretary, we are honored to have you here and we look forward to your statement.

**STATEMENT OF HON. PAUL O'NEILL, SECRETARY,
DEPARTMENT OF THE TREASURY, WASHINGTON, DC**

Secretary O'NEILL. Thank you very much, Mr. Chairman, Mr. Grassley, and members of the committee. Thank you for inviting me today.

What both of you have said, I think I could almost stipulate every part of it, because I did not find any inconsistency in the tone of intention of working together and doing the right thing for the American society and the American economy. This is very much the attitude the President has.

Yesterday afternoon, we spent time talking about these specific issues and he gave me a very clear understanding of what it was he wanted me to represent to you today, which I will do at the end of my statement.

But, if you do not mind, I am going to read through my statement because I have carefully written the words that I want to say to you about where the economy has been and where it seems to be going, and then address the questions you will have for me.

Let me start by saying, I believe the foundations of the U.S. economy, like the resolve of the American people, remain unshakably strong despite the terrorist attacks on September the 11th.

This Nation, its people, and its economy will continue to excel over the long run as we have in the past. I have no doubt about this, having traveled the world and looked at other economies and where they are in their development.

We are still the best. We earned being the best. We will continue to be the best, so no one should doubt that the foundations of the American society are very strong and will prevail. That does not mean that everything is as we would like it right now.

Let me begin by discussing with you where I saw the economy heading before the September 11th attacks. Starting in the summer of 2000, our economy struggled to throw off the effects of an unsustainable surge in investment in telecommunications and information technology. As investment began to plummet in these sectors, the consumer kept the economy in barely positive growth territory.

In the third quarter of this year leading up to September 11th, I believe the economy was running at a low rate of real growth and was likely to have concluded the quarter with a small, but still positive, growth rate.

The fourth quarter prospects were somewhat better, perhaps a real growth rate in the range of 1 percent to two percent, and the 2002 outlook suggested a return to normal growth rates as the economy responded to favorable developments, which included stimulus to consumer spending from the tax rebates, aggressive Federal Reserve easing during the first 8 months of the year, reduction of excess inventories paving the way for future production gains, and the easing of energy prices.

I do not share the view that has been expressed by many commentators that our economy during the period before the 11th of September was, in what has been said, was a free-fall. I do not think there are any facts that support such a contention.

The terrorist attacks of September 11th created disruptions that swept through our economy very quickly. Our air waves were shut down and all of the travel-associated industries effectively came to a halt.

Consumers stayed home and, as a consequence, it now seems certain that when the numbers are tallied for the third quarter, they will show that our economy experienced negative real growth.

It is hard to imagine, in fact, that you could shut down our economy for five or 6 days in any particular quarter and still have positive real growth, so this should not be a surprise.

The first comprehensive economic information we received on September, to be released on Friday, will not provide much information on the effect of the attacks, although private forecasters expect it will show an increase from the August unemployment rate of 4.9 percent. I should say, this first important piece is the employment and unemployment data for the month of September.

Since the Labor Department's survey reflect employment in the early part of the month, workers affected by the attacks presumably showed up on the payrolls and were counted as employed by the data we will see on Friday.

We should not be surprised, therefore, to see a further worsening of the unemployment numbers when the October figures are released, as the post-September 11th layoff announcements are translated into actual job losses.

This is by way of saying to you that there are certain economic trends that are what I would call "baked into the cake." This is one of them. No matter what we do or what we wish, the unemployment data for October is not going to be as favorable as the data for September, August, and July.

The depth of the contraction, as well as the pace at which the economy returns to a healthy rate of growth, will depend in very large part on how fast consumers regain their confidence and on our success in incorporating new protections against possible terrorist acts without material reductions in the economy's productivity.

The fourth quarter numbers will depend on how quickly consumer confidence rebounds. In just the past week, it appears we are beginning to regain our economic footing. Consumers are returning to stores, airline usage is increasing, and there are buyers again for big-ticket goods such as automobiles.

In fact, much to the contrary expectations, again, of the pundits when the automobile companies reported their data for the month of September yesterday, they reported data at a \$15.9 million annual rate of production of cars and light trucks.

Pundits were suggesting \$14.7 million, so we ended the month of September at \$1.2 million unit higher annual operating rate than the doomsayers were forecasting. At this rate, this will be the third best year ever of automobile and light truck sales in the United States.

The administration has worked with Congress to craft appropriate and timely policy responses to minimize the economic downturn. The fiscal policy stimulus in the pipeline is already substantial.

It includes the Economic Growth and Tax Relief Reconciliation Act of 2001, which provided \$38 billion in tax rebates sent out in July, August, and September, as well as increasing growth prospects by lowering marginal rates.

We have also taken significant steps since the terrorist attacks. The President and the Congress have approved \$40 billion for meeting relief needs and increasing security measures, and have provided \$5 billion in direct relief to the airline industry, with another \$10 billion in loan guarantees to follow.

Supporting this vital industry through this difficult period is crucial to restoring consumer confidence and maintaining thousands of jobs in the airline and related industries. Of course, the Federal Reserve has lowered the Federal funds rate by 400 basis points since January.

There is a broad agreement that, in order to have the appropriate impact on the economy, the fiscal impact of an economic growth package should approximately one percent of GDP.

With the actions already taken, about \$50 billion of spending has already been put into motion. Recognizing this, the President has instructed me to work with the appropriate members of Congress to formulate a package of actions with a fiscal year 2002 impact of \$60 to 75 billion.

The President believes, and there seems to be broad bipartisan agreement in the Congress, that we should take care not to put upward pressure on long-term interest rates. It is clear that the components of the stimulus package are just as important as its size.

I look forward to working with you to ensure that the package addresses three priorities: restoring consumer demand, supporting business investment, and helping those affected by the September 11th attacks.

We welcomed the positive comments from members of Congress on ways to help the economy. We are confident we can come together to create a fiscally responsible stimulus package that will restore confidence and prosperity in our economy.

In conclusion, I want to thank you again for this opportunity to come before you today, and I would be happy to take any questions you may have.

[The prepared statement of Secretary O'Neill appears in the appendix.]

The CHAIRMAN. Thank you, Mr. Secretary. I compliment you on your tone, on your thoughtfulness. I also give very high praise to the President. I know the President has resisted suggestions from others to take advantage of the situation for partisan proposals.

He, very wisely, demonstrating true Presidential leadership, has resisted those entreaties. I thank both of you, and I know the country does, for stepping up and working together with both political parties, with both Houses, and the American people, doing what is right.

I have three proposals, and I think they fall within the criteria that we have generally agreed with. I would like you to indicate the degree to which you think they make sense. Essentially, they are, one, a contemporary payroll tax cut of some kind.

As I mentioned, it could be, perhaps, in the form of a rebate or a wage credit to those Americans who did not benefit from the pre-

vious tax rebate. They are taxpayers. This will be a wage credit to persons who do receive wages, receive income.

The second proposal, would be enhanced depreciation or expensing of some kind, such as the current ideas of bonus depreciation where a company could get a larger percent, say, 20 percent, in the first year. That has the effect of encouraging immediate investment and also does not push up the budget cost in later years.

A third, would be extension of unemployment benefits. Many people need those benefits, as a consequence of unemployment.

Could you comment on those, please, and tell me whether you think they are in the range of what seems to make sense, and what else you also think we should look at?

Secretary O'NEILL. In a general sense, your ideas are very much in keeping with a conversation I have had with the President about the kinds of things that should be in this package that falls within the total.

I would say, starting with a notion of \$60 billion, the President set, indicate to the committee that you are willing to work with them in a range of \$60 to 75 billion. But the items that you mentioned are very much at the top of the list of considerations that we have discussed inside the administration.

As you say, we have talked to people not just inside the administration, but all over the U.S. economy. I think it is fair to say that there is a broad agreement about the substantive suggestions you have indicated.

There is one other that I would add that we have on our list, which is something called the possibility of national emergency grants, as a way to put money to Governors so that, where there are special, compelling cases, they can provide some financial assistance to people who are laid off and have difficulty meeting some particular expenses, such as a continuation of health insurance coverage. This way, Governors have an ability on a State-specific basis to deal with those issues rather than insisting on a national program of uncertain dimensions.

So, along with the three things that you mentioned, the idea, perhaps, of accelerating income tax cuts that have already been enacted, but with a delayed implementation, doing something, as you say, for the taxpayers, but people who work but who didn't actually receive a benefit in the rebate program that we sent out earlier in the year.

Also, providing some extension of unemployment insurance, which is very much in keeping with the President's own thoughts of things that we should discuss together and fashion into an agreed bipartisan program that we can all represent to the American people is our best-considered judgment and the best thing that we should do for our economy.

The CHAIRMAN. I think it is wise to address those who have additional health care costs as a consequence of our economic situation here. There are various approaches, clearly. One might be what you suggested. Another could be helping those Americans through existing programs, and that is the so-called COBRA structure.

As it is today, as you know, Americans who lose health insurance as a consequence of losing their jobs, under the law, have the op-

portunity to regain that health insurance if they pay 102 percent of premiums.

Those workers would have previously paid about 20, 25 percent of health insurance premiums. And 102 percent is pretty high. As a consequence, the data we have show only that about 18 percent of Americans take advantage of this program.

The thought is to utilize the same program, giving people a break, say a 50 percent subsidy so that they could pay, roughly, 50 percent for the premium rather than 102 percent.

The data we have on that show that the sign-up rate would be quite high if it is limited to a certain period of time, say 12 months, the proposal could stay within the cost constraints that we have here. But that is just another way to approach the problem that you have suggested.

I know, over time, we will work out which one seems to make the most sense, but I do think it is appropriate for us to address the plight of Americans who have lost their health insurance.

Senator Grassley?

Senator GRASSLEY. Yes. Continuing kind of where I left off in my statement, and I am not going to define once again what I mean by "effective, efficient, and expeditious," the fact that any stimulus ideas we have have to fit into this definition.

But it is obvious that I think that we all have to have a sort of filter to run our ideas through. I guess I want to make sure that any ideas we have do not have a potential implosion of any stimulus. So I guess I want to know whether you share, the administration shares, my concerns.

They are not just my concerns. There are a lot of people, both Republican and Democrat, who expressed these in our meetings yesterday. If so, will the administration be willing to apply some sort of filter or test to these various proposals if we decide to proceed and focus on a stimulative proposal?

Secretary O'NEILL. Yes, indeed, Senator Grassley. As we have discussed in private sessions that we have had, I think it makes an awful lot of sense for us to work together, then to stipulate what good we think this package, when it is finally fashioned, will do in terms of changing the otherwise expected slope of real growth in the economy and levels of employment and unemployment so that we put ourselves to the test that you suggest, that what we are doing is because we have a strong belief, on the basis of the best professional advice, that the medicine is going to work, and will work in a way that makes it worth the cost.

But, if I may, I want to go back to something that you said in your opening statement, which, to me, is a critically important thing. In order to reestablish confidence, we must be able to assure people that when they fly, they are safe to fly.

To your point about passing the necessary legislation to not only assert, but to assure, that there is airline safety, is a critical part. It is critical in its own right, but it is also critical because, without airline travel, we are going to have collateral consequences in the hotel industry, in the rental car industry, in the restaurant industry.

So what you said in your opening statement is a critical thing that we should not lose sight of. We have got to restore confidence

to the American people in a general sense, and a more specific sense, that it is all right to go back to what we consider "normal" life.

Senator GRASSLEY. Let me list nine things that you do not have to respond to, but are just in my own mind things that have come to my attention that have to be filtered, whether they meet these tests: a tax credit for travel expenses; highway spending over and above the budget limits for special projects; so-called human infrastructure, such as new entitlement spending for health care; new enterprise zones; new expanded tax credits for education; a package of \$31 billion of new entitlement spending; new COBRA payments for specified classes of workers; piecemeal expansion of Medicaid; piecemeal expansion of trade adjustment assistance, as an example. So, these are just some of the things that have floated around here already.

I want to go back to the point that Senator Baucus left off on, without going back through everything that has been said about whether or not the rebate checks have done what we expected them to do.

But before I ask that question, I want to make sure that we understand that there is already, from the last tax bill, because of the leadership of Senators Lincoln, Breaux, and Snowe, we have 16 million children benefitting from retroactive refundable child tax credits. So, in many cases, these people got \$600 checks, even though they did not pay any taxes.

In regard to the rebate checks, how would you answer the argument that the checks were a failure? Would it have been better not to deliver the new 10 percent rate bracket retroactively? Would it have been better to leave that \$40 billion in the treasury?

Secretary O'NEILL. My own view, is that it may have been fortuitous, but putting the \$38 billion into play in our economy, I think, turned out to have been a very useful thing to have done as a down payment on the longer term tax reform that the Congress passed in June.

So, no, I do not have any doubts that you all did the right thing. Its coming together with these terrible events of September 11th provided something we otherwise would have been looking at now if we had not done it in advance without any anticipation of the need.

I think our economy is better off today because of the action you took. So, no, I have no regrets about what you did.

Senator GRASSLEY. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator.

Senator Murkowski?

Senator MURKOWSKI. Thank you very much, Mr. Chairman.

I want to welcome you, as well. Not only does America look to you for results of the plan for economic stimulus, but with your early days in Alaska, Alaska is looking to you as well.

Let me focus a little bit on confidence, on the reality that we need to try to restore consumer and business confidence. That point has been made in other comments here today.

But the question is, how do we restore it? I do not know necessarily that the Finance Committee is going to have any magic wand.

But one thing that I think may give some impetus for relief, is to consider allowing companies to expense the costs associated with the high technology security equipment that they will surely have to purchase, either now or in the coming years.

As we look at our vulnerability in many areas, one area that I have looked at is the energy infrastructure, the generation, the transmission, and distribution that basically keeps the economy operating and healthy.

Now we find that additional costs are associated with security upgrades. Investment in the upgrades is going to cost billions and billions of dollars. They do not add a dime to the bottom line of the companies that are putting them in, yet, these must be put in for the protection of the plants and the people.

Now, expensing these costs would go a long way to allowing American companies to meet these security challenges associated with this new age that we are living in as a consequence of September 11th.

That would give them more of the cash flow to invest in development research, new plants, equipment, and so forth. It would seem a reasonable consideration, based on the reality of what the security is going to cost and the realization that it does not add to the bottom line.

Then I wonder if, as we heard from Senator Grassley and others relative to the role of the Federal Government in stimulating the economy, we are constantly reminded of what it is going to cost us, and how do we control the cost, and is it really a subsidy, and can we justify it.

I wonder if there are not some areas associated with the private sector that need a boost. I hate to be nationalistic relative to my State, but we had an extended hearing yesterday on the issue of bringing natural gas reserves down from my State, where the proven reserves are about 36 trillion cubic feet. The estimates by the industry are somewhere in the area of 60 to 90 trillion.

The idea of a project of this magnitude does not necessarily involve government subsidies, but what it does involve is an interest by government in seeing how it could be put together.

If you called in Exxon, if you called in BP, if you called in Phillips, the principal owners, and said, what role can we provide in stimulating a project that would employ 20,000 to 30,000 people throughout the United States and build a 3,000-mile pipeline from Alaska to Chicago, keep employment in an area for probably three years that would add 25 percent of the current total domestic gas supply available to the United States. These are things that appear to be visionary up to a point, but the reality is, the reserves are there.

It does not necessarily require government subsidies. What is the role of your office as Secretary of Treasury, in trying to put some of these projects together that could be financed by the private sector that might need a little assistance?

I would encourage you to take a look at some of these because we are thinking a little bit outside the box. In this box of the Finance Committee we look at what we can do to stimulate with government. But what can government do with the private sector on some of the major project opportunities that might be out there?

So, I would appreciate your comments on those two matters. One, is expensing the cost of security devices, and potentially looking at some major projects that might be accommodated in this Nation.

Secretary O'NEILL. If you do not mind, I am going to go back to the top of your question where you talked about restoring confidence, and tell you my view of this situation.

First of all, I think we should take some care to differentiate between the idea of a restoration of confidence in our security and our safety when it comes to airlines and the possible extension of terrorist attacks in other ways. It is important that we get that restoration of confidence.

But I think there is another aspect of this that we should not expect to change quickly. That is the sense I see and hear when I have traveled around the country in the days since September 11th.

I find, without exception, Americans have got an ache in their heart about what happened on that day and I do not think it is going to go away in a hurry. People are going to continue to have those horrible visions and images in their mind, and a concern about what else we have to worry about.

So I would separate that, which I think, in fact, is desirable that we not forget that feeling, that we keep it alive, to keep us on alert, but, on the other hand, that we look at the question of confidence with regard to the economy in a different way.

I will tell you a proxy that I have been looking at in talking to people on a very day-to-day basis about, and that is, consumer activity. The easiest way that I have found to measure what is going on in the economy is by talking to the few companies that have most of the credit card activity in the country.

I will give you some facts. These are not opinions, these are facts. In the days immediately following the attacks, the usage rates of the two major credit cards were running something on the order of 18 percent under last year's equivalent rate. Before September 11th, they had been running about three to 6 percent better than a year ago.

In the week after the 11th of September, the rates were 10 percent negative to the previous year. Last week, through last Friday, the rates were negative six percent. Last weekend, they were the same as the previous year.

Now, when I look for confidence, I am out there looking for facts. I can read all the opinions I want to in the daily newspapers. I am really interested in knowing what the facts are.

I measure those facts as an indication of Americans getting their confidence back in the sense of, are they going back to something like the pattern of activity that they had before these horrible events occurred?

So I think, in that sense, in an economic sense, we are certainly seeing a trend of Americans, even with a heavy heart, going back and regaining their economic footing because of what I said in my prepared statement. I think we are regaining our economic footing.

The CHAIRMAN. Thank you, Mr. Secretary, very much. Appreciate it.

Next on the list, is Senator Conrad, who is not here. Senator Lincoln has very graciously agreed to manage the Vietnam bill on the floor at noon, so other Senators have graciously allowed her to precede them.

Senator Lincoln?

Senator LINCOLN. Thank you, Mr. Chairman, and thanks to my colleagues as well for their graciousness.

Mr. Secretary, I have two particular questions, I suppose. Do you think, from your perspective as a businessman, that employees and shareholders feel more secure about their company and their jobs when their president or their CEO announces that he has secured millions of dollars in new orders, or that he has secured an unspecified amount for tax savings?

I ask this, because I know that under your umbrella there is at least one organization, the IRS, that desperately needs new information technology equipment, computer software integration services. The same is really true for HCMA, or CMS, the CIA, and FBI, and many others.

Could we not give, really, a dramatic boost to some of the manufacturers of IT equipment, the service industry and their suppliers, if we were to make the investment in that area that we already know that we need, not just for growth in the economy and in our government, but also for national security?

Secretary O'NEILL. Thank you for your question. Let me talk to the part of your question that I know directly from my own personal responsibility. That is, the possibility of doing something more aggressive with the IRS.

As I understand, this is history. In the 1990's, the IRS spent \$5 or \$6 billion. According to both the current administration at the IRS and the reports from the GAO, there was no product for the \$5 or \$6 billion.

So the Congress worked very aggressively, established a new organizational pattern, and brought on board one of the most knowledgeable, highly-qualified people from the private sector, namely Charles Rossotti, to run the IRS.

Charles and his associates have put together a computer software and equipment investment program that is quite aggressive and has detailed review steps with committees of Congress to make sure that, this time, we are going to get product for investment.

I must tell you, without information or knowledge, I would be tempted to leap at your idea. But they have convinced me we cannot move any faster than we are.

I must tell you, it is a real frustration to me when people tell me it is going to take several more years before we get this job done, because I would like to get it done a lot faster. The IRS people have convinced me that we cannot move at a faster rate than what we are moving.

Senator LINCOLN. Perhaps for the IRS, but the other agencies as well. I know many of the comments that we get back from agencies in request of expediting, say, perhaps, reimbursements and other things, particularly from CMS and others, is that they are working with 1970's technology.

I cannot imagine that, in the private sector, they can put into effect the kind of technology that can assist the businesses to be at

a 21st century level of intelligence in their IT equipment and the government cannot do the same. But I appreciate that.

The other thing that I would like to just focus on, is I do not think that there is anything that we really can do that will absolutely guarantee this Nation that we do not go into a recession.

I think we will do all that we can, and we will work as a committee, a Congress, and certainly with the administration to make the wise choices that we think will prevent that. But we do not have any guarantees.

I think one of the guarantees that there is, if there is a guarantee that we do go into a recession, it is if we as a Nation allow the rural economy to collapse, the agriculture economy to collapse.

As representing the administration, we did have Secretary Veneman, who did not feel comfortable in obligating what the administration could or would do in a farm bill. Do you have the ability, or could you comment on where the administration is in making an investment in a new farm bill and in the rural economy?

Secretary O'NEILL. Well, I guess I do not want to trample on Secretary Veneman's turf. She really ought to be our spokesman on the specifics of a farm bill.

I had the opportunity to be out in Iowa about three weeks ago, and I found the crops were growing smartly. Maybe they had a little bit too much water, but it looks like it is going to be a very good year in terms of agricultural productivity in the United States. I know there are issues about how the Federal Government interacts with the farm community.

But one of the things I said in the wake of September 11th, and was really to make a point about the strength of our economy. Those horrible events did not affect the rate of growth in those wonderful farm communities around the world, where people continued to do their daily work.

No matter how good things are, they worry about the weather. At least so far, I have never met a farmer who believed things were as good as they ought to be. Sorry for that, Mr. Grassley.

Senator LINCOLN. Well, the problem is much more than the weather, unfortunately, in the agricultural economy. I think that when we look at the issue of whether or not the administration is going to really continue presenting the kind of resources that they allotted for in their budget towards that new farm bill, there is a real question there and no one seems to give us an answer from the administration as to whether their intentions are good in continuing with the number that they have actually got there through the budget.

The CHAIRMAN. Thank you.

Secretary O'NEILL. Mr. Chairman, may I just say one thing?

The CHAIRMAN. Go ahead, Mr. Secretary.

Secretary O'NEILL. But I wanted to wrap part of a non-answer to his question with your question. In a way, it relates to what you and Senator Grassley said at the beginning. There is no doubt that we all have things that we would like to do that we have thought were advisable for a long period of time.

It is really important that we work together, I think, not to include everything that people can imagine as part of this rifle-shot attempt, and to make sure that we do the right thing for the Amer-

ican people without any question and as simply and as directly as we can.

Some ideas about micromanagement, I have to tell you now, you ask me as a businessman, I worry a lot about our ability to do good with micro management because I do not think there is a lot of evidence that we at the Federal Government are adroit at micro managing. So, I am broadly in favor of instruments that are broadly based and not specifically targeted.

Then to take up the issue that you are raising very directly in the appropriate places in Congress, and if there is a need to do something more we should do it in the context of regular, ongoing business.

Senator LINCOLN. Absolutely. I do not use that towards the stimulus.

The CHAIRMAN. Thank you. Thank you, Secretary.

Senator LINCOLN. But just knowing the dollars that are in the budget for that, if they are going to remain.

The CHAIRMAN. Thank you very much, Mr. Secretary. Thank you.

Senator Conrad?

Senator CONRAD. Thank you, Mr. Chairman, and welcome, Mr. Secretary.

Secretary O'NEILL. Thank you.

Senator CONRAD. It was awfully good to hear from you this morning. I agreed very much with what you had to say, both in terms of a need for a stimulus and the basic size of the package.

So now we have to go to work to try to put together the constituent elements that will be balanced, that will try to work on the consumer demand side, but also help the business side that is suffering seriously as we meet here today.

In fact, I have just been here with a constituent of mine who runs a major travel company, one of the largest in the world. They have 6,000 employees. This company typically sells 20,000 tickets a day; the Friday after the attack, they sold two.

The consequences are dramatic. They have had to lay off 1,200 people around the country. He is alerting us that others in the travel business are in a similar situation. They are going to have to be laying off thousands of people. We have 400,000 people employed in that industry across the country. They sell 80 percent of all airline tickets.

If the distribution system for airline tickets falls apart, even if planes are up and flying, that is going to create a problem for the traveling public. So, that is another thing we have to consider as we move forward.

The Budget Committees of the House and the Senate will be announcing later today that we see now that we will have a unified surplus next year of \$52 billion, down from what was estimated earlier in the year of \$300 billion. That is before any stimulus package, and that is before any additional spending on defense, and that is before budget resolution policies that have not yet been enacted this year. So we can see that we are headed for some fiscal challenge.

That means we will be taking some \$160 billion of payroll taxes, of Medicare and Social Security, and using them to pay for other government programs, something I would strongly prefer not to do.

But we recognize our country has been the victim of a sneak attack, and on top of that, a serious weakening in the economy. We simply must respond.

The Budget Committee leadership will be announcing basic principles to guide us in making decisions on a stimulus package. We agreed to those principles yesterday, and the administration has played a significant role as we have deliberated on what those principles should be.

I think the most important thing is that the stimulus should be big enough to make a significant difference, but not so big that it adversely affects interest rates. I was very pleased to see the President emphasize those principles as well yesterday.

I would like to just take you, for a moment, to the business side of the equation to talk about two ideas that have been shared with me by leaders in the business community. One, is net operating loss carry-backs. A number of years ago we changed the rules on net operating loss carry-backs to make it more rigorous.

There is some strong feeling now, especially in light of what has occurred, that it would be appropriate in any stimulus package to revisit our treatment of net operating loss carry-backs. I would like your response on that.

The second one, just very quickly, is expensing. I was in New York this weekend meeting with a number of financial leaders. These were the two items that they most frequently mentioned. There were others as well, but the two things that came back most frequently were changing our treatment on net operating loss carry-backs and expensing.

Could you comment on those two and whether or not you sense those are things that we should consider for inclusion?

Secretary O'NEILL. Senator, first of all, let me say, what you said about where we are and about the erosion of what we thought were going to be substantial pay-downs of debt, it is precisely the sentiment that the President has.

He said to me yesterday, "This is how I feel about this, Paul, and if they ask you about it, tell them that it is because of these emergency conditions that I am all right with where this is headed at the moment." So, the President very much agrees with your characterization.

With regard, specifically, to the idea of doing something and re-looking at the net operating losses and at changing expensing provisions, they are very much at the top of our list of things that should be considered by the leadership as we fashion a package. Thank you very much for advancing those ideas.

Senator CONRAD. Well, I thank you for that. I hope, as we go forward here, that those provisions can be included. Any analysis that you have at the department level on those changes and what specifics we might consider for a package, I think would be very helpful to the committee and to the leaders as they consider various elements of a package.

Secretary O'NEILL. We will provide that. Thank you very much.

The CHAIRMAN. Thank you very much, Senator.

Senator Gramm?

Senator GRAMM. Well, thank you very much.

Let me get to the bottom line here, because I only have 5 minutes. I understand that we are going to have to buy a stimulus package. I understand that if we have got \$50 billion, that we are going to have to spend at least half of it on things that have nothing to do with stimulating the economy as a way of paying tribute for doing something that does help the economy.

But to save my life, when I listened to Chairman Baucus' list, it is all tribute and no stimulus. These are all the same old ideas that were rejected in the last tax package, primarily giving tax cuts to people who do not pay taxes.

Now, it seems to me that I am willing to say, all right. I know how our system works. If we have got to just spend \$25 billion to get a \$25 billion stimulus package, maybe that is what we are going to have to do.

But what I want to be very sure of, and what I am not sure of at this moment, is if we are going to get any stimulus in the stimulus package. It looks to me as if we are moving toward a package which I am not going to vote for.

Now, if we want to talk about how to stimulate the economy and do it without exacerbating all of our other problems, to me the obvious starting point is to make the tax cut permanent.

Now, the administration proposed that several weeks ago when they did their mid-session review. We did not get the kick-start that we had hoped from the tax cut, in my opinion, for one reason: people understand it is temporary.

Let me ask you a question. Are you still gifting?

Secretary O'NEILL. Am I still gifting?

Senator GRAMM. Gifting.

Secretary O'NEILL. Do you mean, personally?

Senator GRAMM. Yes.

Secretary O'NEILL. Absolutely.

Senator GRAMM. Yes. So am I. And do you know why I am doing it? Because the tax cut was temporary. Because I know in 9 years, it is going away. People are not stupid. So we marvel that we had this massive tax cut and people do not change their behavior. Why? Because it is lasting only 9 years.

So people are still tying up money for their children's future. Their children cannot touch it, if they are smart. They are not spending it. All of that could go away and people could respond to these tax cuts that they know are coming if they knew they were going to be permanent.

So I want to urge you, Mr. Secretary, to, at an absolute minimum, if we have got to pay tribute, if we have got to have all these programs that are basically rereads of old political programs, all right. But, at absolute minimum, let us make the tax cut permanent.

It will have an immediate, profound effect on behavior. It does not cost us a penny for 9 years. So, it ought to be an ingredient. We can put it in there in terms of the next 2 years. The cost is zero.

Second, I am in favor of moving up the rates. I do not think you would get the impact of doing that you would in making the tax cut permanent. If we are going to get \$25 billion of this that is

going to go to stimulus, I think we ought to look at doing something about rates.

I think that we can have an effect by changing depreciation schedules. But the plain truth is that when you start out and say, well, we set out parameters and the basic parameter is that nothing you do can be permanent, you have basically decided that you are not going to do very much that is going to have any kind of substantial effect. Because who is going to go out and invest money in the long-term future based on what you do if it is going to be gone in 2 years? So you might do a little bit of good by changing depreciation schedules, if that is permanent.

You might do a little bit of good by letting people expense some things, and they would buy them this year rather than next year. But in terms of, it seems to me, of changing behavior, I change behavior when reality is changed. I try not to change behavior just for the hell of it, or because somebody gives a rah-rah speech, or because somebody is nice to me 1 day or not nice to me the next. I change behavior when I believe things have changed.

I would just like to pose my question here at the end. Out of spending \$50 billion, and you know most of it is going to go to stuff that is going to have no positive impact at all, do you not think that a fundamental element of it, which would not cost us a penny for 9 years, of making the tax cut permanent makes eminently good sense?

Surely, almost everybody in this room voted for the tax cut. I assume we meant it forever. I assume we did not mean we were going to take it back. I assume it was because of a technicality in the budget that it had to be. Do you not think it makes sense to make the tax cut permanent, and do it now? Do you not think that would have a profound effect today? [Laughter.]

The CHAIRMAN. Good timing. Good timing.

Senator GRAMM. I have obviously been doing this a long time. [Laughter.]

Senator GRAMM. I did not hear the answer.

Secretary O'NEILL. I want to go back to the, yes, I said to you before about, am I still doing gifting. I am doing gifting, and I will continue to do gifting no matter what the tax law is, because I believe it is a useful thing to do. There are a lot of things that I think are deserving of support, so I am going to continue to do gifting.

Senator GRAMM. I mean, gifting your children to avoid the death penalty tax, and your grandchildren.

Secretary O'NEILL. We all have to deal with the Tax Code the way it is. But, yes, to that question as well.

Now, to your question. The President said to me, "Paul, do not go and be argumentative." So I am not going to be argumentative. The President said, we should look at everything that is offered in good faith and we should make sure that this meets the test, that it is the right thing for the American people, it is right for helping to the best degree we can, get our economy righted again, and it is appropriate for the long term so we do not do damage to the long term.

Certainly, I think, Senator, what you have said needs to be incorporated in our discussion, and I am sure that it will be.

The CHAIRMAN. Thank you, Mr. Secretary. Thank you, Senator.

Senator Kyl?

Senator KYL. Thank you, Mr. Chairman. I was there when the President signed into law the tax cut. And if we did not mean for it to be permanent, if that is not one of the best things that we can do to get this economy going again, then it seems to me that the American people might well lose confidence in what we are doing, which would be the worst thing to do for the economy.

So I cannot imagine why the President would not put this at the top of his list of things that we could do, is to make the tax cut permanent. We bragged a lot when we signed it.

If we only meant it to exist for 9 years and it does have the impact that Senator Gramm said, then we all ought to be ashamed of ourselves, is the way I would put it. I cannot be more serious in saying that we need to give what Senator Gramm proposed here the fullest of our consideration.

Now, I think you are right on target. I look at this way, and would like to get your response beyond the point that Senator Gramm made.

The economy was not well before September 11th, it is not well now, but part of it is an extremis. You correctly identified the airline and the related industries, the travel industries, hotel/motel. You are right on target. They have borne the brunt of the attack. That is where the biggest emergency is.

You also, I think, were right on target talking about a rifle shot, a direct and specific kind of emergency here to provide the stimulus. I totally agree.

Would one of the most direct, quick, and targeted stimuli not be to encourage people to travel? Let me give you a specific suggestion here, very short term. The people's commitment would have to be the financial commitment you make to get a tax credit for travel. It would have to be by the end of this year, so you have only got, what, 3 months to make the commitment.

Now, you could travel later on. You could travel in the next calendar year. But if you bought your airplane ticket or you reserved a hotel room, whatever it is, and put the money down before the end of this year, under my proposal, you would get a tax credit, maybe \$500 a person, maybe more. Also, my idea incorporates the carry-back losses that were mentioned before.

Understanding that there is one part of the economy that is in extremis, would it not be good to consider this kind of proposal as part of it? The cost would not be that significant, maybe \$10 billion. I am not sure of what the total cost would be to have as part of what we do here be a real stimulus, a real shot of adrenaline, to this one specific area.

I will not use the entire 5 minutes.

Secretary O'NEILL. All right. Thank you.

This is a subject that I have spent a fair amount of time on because, in addition to other things I need to worry about, the act that you all passed for support and assistance for the airline industry names me as a member of the decision board for the loan guarantee part of the airline support program.

I have spent a lot of time thinking about where we are with the airlines. Again, I like facts a lot, so I have been trying to follow what is happening with load factors on different airlines.

As I understand it, the rates, especially over this last weekend, began to move up in a noticeable way. I think the industry generally was up 7 percent over the previous week's 50 percent. I understand that those numbers are off of a reduced capacity base, so we have to be careful about how we interpret the data.

But I also understand—I think this is right—that Southwest was back up to 80 percent. The concern I have about how we might do what you are suggesting, which I agree is essential, that we get people back into airplanes and, therefore, fueling the collateral economy, is that if we were to say to the American people, we will give you a tax stimulus, not only do we have to give tax assistance to people who otherwise would not have flown, there is no way to distinguish between those who would have flown anyway and those that we add at the margin. So if the load factor is 50 percent and we are trying to get the other 50 percent full, we have got to pay a subsidy to 100 percent of the fliers. And, at least as I have looked at the numbers, we are talking \$300 million a week, or something on that order. So, the numbers mount really quickly.

Senator KYL. Mr. Chairman and Mr. Secretary, that is why, though, I think you have only a very limited period of time. We are only talking about a quick, temporary time. Just, what, October, November, December. So, it is very severely limited.

With respect to the first argument, excellent point, because some people will travel anyway. But there are also probably the people who are subject to repeated travel and, therefore, this might also induce them to make that one other trip that perhaps they would not have made.

I would just urge you to strongly consider that, because of all of the things we have talked about. I do not want to debate the merits of them, but a lot of them are, in fact, retreads. Frankly, it is very difficult to make the argument that some of these things, such as health insurance, extending unemployment, I mean, none of that has anything to do with stimulating the economy. It lets people keep a little bit of their money.

But if you are looking at the most emergency situation here, which is the industry you identified, I strongly urge you to consider this kind of stimulus because I think it would have one of the most immediate and direct impacts that we could have.

The CHAIRMAN. Thanks.

Senator Breaux?

Senator BREAUX. Thank you very much, Mr. Chairman. Thank you, Mr. Secretary, for being with us again.

I said yesterday, in a very good meeting that the Chairman called where we had Democrats and Republicans talking about what we were going to do and when we were going to do it, that we all needed a reality check, in the sense that, after everybody talked, we had about \$1 trillion worth of proposals and only \$50 billion to cover it.

Obviously, there is going to have to be a lot of calls for a reality check on what we do. We simply do not have enough money to do anywhere near half of what the suggestions are, and you are getting them all.

It seems to me that I take it the administration has decided, number one, you support an economic stimulus package.

Secretary O'NEILL. Yes, sir.

Senator BREAUX. And, number two, you either support or are comfortable with a package in the range of \$60 to \$75 billion.

Secretary O'NEILL. That is correct.

Senator BREAUX. The question then becomes in my mind, how do you divide it up? Are we going to do it all on tax cuts? Are we going to split it 50/50 on spending and tax cuts, some type of a division? Is there a recommendation from the administration on that amount being spent, and in what fashion, either from a tax cut standpoint or from a spending standpoint?

Secretary O'NEILL. As we have looked at this, at the top of our list of things to do is, first of all, to look at the consumer side. As we have looked at the consumer side, we have said an obvious place to begin consideration is some acceleration of the rate reduction that you already voted for, but have been delayed for some period of time, because the economic evidence is fairly clear that marginal rate cuts do make a difference when people are certain that they are going to get a marginal rate reduction.

Senator BREAUX. Do you think it has enough of an effect in the short term, or is that a long-term solution?

Secretary O'NEILL. No. We think it will have an effect fairly quickly as people see that they are going to actually have a changed pattern of taxes.

Senator BREAUX. Accelerate the rates earlier.

Secretary O'NEILL. That is a place that we think you should look. Senator BreauX, before you came in I said that the President has said we should work against the idea of some assistance to get consumer demand strengthened, some assistance to strengthen investment activity, and something to take care of the people were directly affected by September the 11th.

Senator BREAUX. Is a 50/50 split, with that amount of money we have, in the ballpark?

Secretary O'NEILL. I would say that is a stocking horse for how to begin thinking about the subject.

Senator BREAUX. All right. I think, with all due respect to my colleagues, that making the tax cut permanent does not do anything to stimulate demand in the short term. That may be fine in the way out, but I do not think it does anything to stimulate demand in the short term.

I think that there are things that we can do, and I think we have had some good ideas. Somebody is going to have to start putting this down on paper if we are ever going to do it before we leave town. Right now, if we put it down on paper, it will be more than the Bible. I mean, it is like that big and it is getting bigger every day.

So we have got to really, I think, move fairly quickly on this. I mean, we all have ideas. One of my ideas, is just to make the entertainment and business meal deductions 100 percent deductible to help restaurants, and hotels, and motels when people travel, to be able to go to restaurants and use these facilities and help a lot of people keep their jobs. There are a lot of them along those lines.

So I take it from your comments that the administration would not identify a specific proposal with regard to what you would like to see in terms of an economic stimulus package. Are we going to

get that, do you think, from the administration, or are you going to kind of work on it?

Secretary O'NEILL. Senator, what the President has said to me is, "Paul, I want you to work with the leaders of Congress and fashion a package that fits within this overall number band."

Senator BREAUX. Did he mention the Finance Committee, too, or just kind of everybody?

Secretary O'NEILL. This is all of you, which means I am going to have to talk, I suppose, to 535 members, or to those of you who can round up people who will give you their proxy.

But, no. I think I am prepared, sitting down with you all, to identify the things that we think are important priority things to look at. My own view, is this should not be 100 items.

Senator BREAUX. When do you think we should have this done? I mean, as soon as possible, or within the next 4 or 5 weeks?

Secretary O'NEILL. Well, I do not know. I do not know when you are going to leave. Before you leave, we should have this done. If we can do it in the next 3 or 4 weeks, that would be highly desirable.

But the instruction the President has given me, is that he believes we are at a time when we can legitimately call on the patriotism of the members of Congress and work in a way that is not partisan. That is not to say that there will not be different ideas about what should be in this. He does not think it should be a Christmas tree. He thinks it should be principled and it should accomplish the purpose.

Senator BREAUX. I like that last comment. Obviously, if we get into a real partisan battle, what that is going to do for the economic confidence of this country is not very much. In fact, I think it would be very damaging. We ought to be able to come up with something that can pass 100 to zip, or as close to that as possible, to show that we are making it work together. Thank you.

Thank you, Mr. Chairman.

Secretary O'NEILL. Thank you.

The CHAIRMAN. Thank you for those comments, Senator. I appreciate it very much.

Senator Graham?

Senator GRAHAM. Thank you, Mr. Chairman. Thank you, Mr. Secretary, for this very stimulating discussion. I want to say, I appreciate the President's commitment to an economic stimulus package. I think the range of dollars that he is proposing is about what we can afford to do without having unintended adverse consequences.

I am interested in your comment about setting up an emergency assistance program through the States. I have, from my State experience, been impressed with the fact that, working with States and local governments, there are some ways to create quick-starting programs that both contribute to something that is positive for the long-term good of the State and community, and also will put substantial numbers of people to work, particularly in areas such as repair and maintenance of highways, schools, other public facilities where you do not have a long lead time to get started.

With that background, do you see this emergency assistance as being flexible enough that if a State wanted to use it for programs like that, that it would be allowed to do so?

Secretary O'NEILL. I think so. The idea is, really, to put our notions of federalism to work when the circumstances and conditions of different States are affected in different ways by these awful events. It seems to me a very good way to, in effect, disperse some authority so that the local problems can be treated locally and we do not do things that, at a national level seem very smart, but when they get down to the local level maybe only work on average. This means there are some places where there is too much, and some places where there is too little.

So I think this is a really good idea of a way to disperse authority and to deal with local problems that are real to the local people.

Senator GRAHAM. Do you have some ideas of what the characteristics of this assistance program would be, starting with how much of the \$60 to \$75 billion do you think should be allocated to this particular component?

Secretary O'NEILL. I do have a number in mind. When we all sit down to talk about the component parts, I would be glad to share that idea with you.

Senator GRAHAM. What would be your ideas as to eligibility standards for a State, advancing a particular idea to use these funds?

Secretary O'NEILL. This is something that we have got to work on in detail. I would hope we could do something that is very broad-banded and, once funds were provided, that we can turn them over with guidance about the range of uses.

Frankly, I think they should be pretty broad. If we start writing specific, detailed regulations, then we have defeated the purpose and tied the hands of Governors and recipients.

So, I think this ought to be very broad. It ought to be clear, and all the usual provisions about things that you cannot do because it is against the constitution, or the Bill of Rights. But this ought to be pretty broad-based and it ought to flow quickly.

Senator GRAHAM. Well, I look forward to working with you on this issue, specifically, as well as some of the other ideas that have been suggested.

Secretary O'NEILL. Thank you.

Senator GRAHAM. Thank you.

The CHAIRMAN. Thank you, Senator.

Senator Thompson?

Senator THOMPSON. Thank you very much. Thank you for being here with us today.

I have a hard time seeing where the administration is coming from on this. I was concerned in reading your statement. I have been concerned about some of the general statements that you have made in terms of your priorities here, in terms of the stimulus package.

Then I hear you talk about speeding up the tax cut, which I think is good. I appreciate the need for us to work together, and for us to get along, and all of that.

But, since we are delivering messages back and forth here, I think the message that I would like to deliver is that there are

some of us who are friends of this administration who are very concerned that we are going to wind up with a big package that, in large part, will be not stimulative at all, and the part that is stimulative will be the least stimulative of the things that we could choose from.

For example, if, in fact, we need \$100 billion out of this \$10 trillion economy to do any good, and we are talking about an additional \$60 to \$75 billion, then we are saying that if part of that goes to things like increasing unemployment benefits to six months and other things that are clearly not stimulative, then we are not going to get to that one percent of the economy. We are not going to get to Greenspan's minimum threshold if we go down that road.

Now, we are talking about how we are going to divide up this additional \$50 billion, \$60 billion without, apparently, recognizing that all of the money that has already been spent, which is about half of that 1 percent, is all government spending.

So that is already out there, which is the least stimulative of what we could do. I think everybody realizes that, in terms of these infrastructure projects and a lot of the other spending that we are doing, that spending usually kicks in 18 months or 2 years after the fact. It has very little immediate benefit.

Then, I look at your priorities. You talk about the consumer, which obviously we are all concerned about. They are the ones who vote. But, we are talking about a stimulus package.

I listen to Mr. Greenspan and I have read several economists who say that the slow-down has been driven by a huge drop in business investment, while consumers have continued a moderate spending pace until recently.

So, are they all wrong, or is there any reason why we should shy away from the fact that business investment is the linchpin to this? I do not understand where we are going to come out on this. It looks to me like you have got to come in with some criteria.

I mean, you talk about consumer demand as being your leader, then business investment, then individuals who have suffered from the attack. We obviously need some kind of compassion package, but it has little or absolutely nothing to do with stimulus.

I mean, let us decide if we want a stimulus package or not. We are going to have to have a different mind-set coming out of the administration if we are to come close to the 1 percent that Greenspan says we are going to have to do to have any effect at all.

We are going to wind up spending billions of dollars with no stimulative effect, and creating long-term problems for the bond market and long-term interest rates.

It looks to me like your criterion ought to be not who you want to give stuff to, but the underlying factors that ought to make up a stimulus package. That is, it needs to be of immediate benefit, and it needs to be good long-term economic policy at the same time. Those two things right there will take 90 percent of the things that you have been hearing about here today and elsewhere off the table.

It seems to me then that you also should recognize the difference between private versus public spending that I mentioned before. If the people I have been listening to and reading are correct, then we should give priority lagging business investment.

My friend Phil Gramm seems to minimize it a little bit, but everybody I listen to says that this outdated depreciation schedule and the need to be able to expense some things, especially in the high-tech industry, is a no-brainer. Everybody agrees on that, and we are talking about everything but that. That is kind of in a laundry list, along with unemployment benefits and everything else.

So, there are at least a few things that are clearly needed, clearly stimulative, and I would feel a whole lot better if the administration were talking frankly about these things. We are going to have to sooner or later, and face up to the need to prioritize in a different way.

Now, I have laid out a lot here, obviously. I would appreciate any comments you have got in terms of whether or not I am misreading where the administration is coming from or whether or not you disagree with this economic analysis.

I have not been here quite as long as Mr. Gramm, but I came pretty close.

Secretary O'NEILL. Senator, I said at the beginning of my answers to questions that the administration has on the top of its list—and this is really confirming a cross conversation with Chairman Baucus—the idea of accelerated expensing or depreciation.

It was not left out of the conversation, it was the first conversation. It was the highest priority conversation, associated with the possibility, perhaps, of giving consumers some help with an acceleration of the tax rate reductions that you have already voted.

So I think your comments were covered in as clear a way as I know. I think, if you had heard what I said, you would have been with me almost 100 percent.

With regard to the things that you have already voted for spending, the \$5 billion to solve the immediate liquidity crisis for airlines, I must tell you, I do not think anyone should apologize for that. They were really cash-starved, and I think we did the right thing, since we shut the airways down for 5 days. I think we had a good reason to do that.

But, since we shut the airways down for 5 days and they had no revenue and no passengers, it was not inappropriate for the American people to give them \$5 billion to get them through their liquidity crisis so that we have an airline industry tomorrow, and the day after that.

So, I do not feel that that is wrong. I think the \$40 billion issue—

Senator THOMPSON. I am not taking issue with any of that. I am just suggesting that we recognize that that is what we have done.

Secretary O'NEILL. I understand. I am saying, Senator, I want to be really clear. I think we are exactly on your page. I do not find any difficulty at all in encompassing your admonition about what we should do in the agreement that I thought we had with Chairman Baucus, and Mr. Grassley, and others, that we were headed in the right direction.

I would say I agree with you. If we do not produce something that meets the standard that you suggested, that it is worthy of taking this action for the American people as a consequence of what happened to us a few weeks ago, then we, as supposed lead-

ers, have failed our responsibility. If this ends up being some sort of horrible mess that we are ashamed of doing, then we have failed.

Senator THOMPSON. Thank you.

The CHAIRMAN. Thank you very much, Senator.

Senator SNOWE?

Senator SNOWE. Thank you, Mr. Chairman.

Thank you, Mr. Secretary, for being here today. I appreciate your outstanding work.

Chairman Greenspan indicated recently that it would be important to be more right than quick. Hopefully, we can be right quickly, although it would be a surprise to everybody that we can be both right and quick.

But I hope that we can make some decisions with respect to how we calibrate our approach. Obviously, it has to be measured, it has to be prudent. It has to be tailored for these very unique circumstances that have been presented as a result of what occurred on September 11th.

I mean, obviously we are facing some severe economic aftershocks, but the economy was already fragile even before that moment in time. If you think about the fact that we lost a million jobs prior to September 11th in a year's period prior to that, and since that time we have seen unemployment claims up to 450,000, the highest in 9 years, so, in the next few months in the aftermath of September 11th we could be another million in terms of loss of jobs for the American people.

So I do not think that we can ignore what is occurring in our economy today. I think, to do so, would be at our own peril. It would also be at our own peril if we develop a legislative package that does not meet these very precise criteria, the fact that it does have to be temporary, that it can affect the long-term interest rates of this country, that it jeopardizes the long-term economy well-being of our country, and that, in fact, it will be stimulative.

I was just wondering if you could give us an idea of what three proposals do you think would be the most stimulative in terms of turning around this economy.

Now, I know many have said, let us have this be temporary. Does temporary mean through the end of the year 2002? Should we define the duration as well?

Secretary O'NEILL. Some of these things, in a way, work against each other. When you say temporary, at least in a conventional economic analysis of things that are temporary, they tend not to have as desirable an economic effect as something that is "permanent" has, but we have some very complicated ones here.

You already have enacted tax legislation that promises future rate reductions that are on their way. They are not on their way, unfortunately, until 2004. So, there is already baked into our future a flow of money to individuals because of reduced marginal rates.

Now, if we were to bring those rates forward they would have an economic effect and, in a sense, they would be permanent because we would grow into what they were otherwise going to be, and so they would not be a new revenue reduction or new spending, they would be front-ending what you have already enacted into law.

So that is one that kind of meets the combination of wanting to do something now and not have it have a lasting effect beyond what we already agreed to.

The more we can identify things like that, some of the ideas about business expensing, it would also have a front-end effect, and, as the system went through time, the marginal effects would disappear because everybody would be on a new basis once we got through a few years.

Senator SNOWE. So you are suggesting that there should not be a definitive period of time. There should not be a sunset provision to any of these provisions that we should enact. How do we avoid affecting surpluses and interest rates down the road?

Secretary O'NEILL. Well, first of all, I think it is worth observing. The next time you see Chairman Greenspan, he will tell you this, too. It is very interesting to see that the 10-year rates have come down to quite low rates.

In the last few days we had a spike-up and there was a concern, which he would have told you if you saw him 2 weeks ago, that, oh, my goodness, we are beginning to see a rise in long-term rates. It looks like we have turned that corner and, in fact, the 10-year rates, I think, as of yesterday, was 532 or 540, something on that order of magnitude.

So I think when you see Chairman Greenspan next he will continue to caution you, because it is in his blood stream, do not things that are going to kill the economy in the long term. But I think he will show you less concern about the current trend of rates for 10 years.

Senator SNOWE. Well, that depends on what we do as well, does it not, that could affect that rate?

Secretary O'NEILL. Absolutely.

Senator SNOWE. Yes. Right.

Secretary O'NEILL. The markets are going to watch very carefully. If we do things that have an apparent impact on the long-term fiscal balance, the markets are going to punish us. I think you should not doubt that at all. But there are some things that we should do that probably should be temporary. For example, in our history—

Senator SNOWE. Well, can we define temporary?

Secretary O'NEILL. I am going to.

Senator SNOWE. All right. Great.

Secretary O'NEILL. I am going to. In our history, we have had occasions when the unemployment insurance entitlement was for up to 65 weeks. At the moment, we are at 26 weeks. If we raise—and I think we should consider it—raising the duration of unemployment benefits during this difficult period, we should not entertain the notion of making that extension permanent.

We should hope that we are going to be able to quickly move back to 26 weeks, because the date is pretty compelling. If you have longer durations when unemployment is very low, it causes people to stay out of the labor force than otherwise they would.

Senator SNOWE. In terms of the most accurate information that we should have, again, Chairman Greenspan indicated to us last week that by the end of this week we should have a pretty accurate measurement of where we stand economically, and then, obviously,

we determine whether or not we should proceed with a stimulus package.

Would you say that is a fair assessment, at the end of this week, since September 11th?

Secretary O'NEILL. I am a data maven. I never get enough data. If you ask me how long you have to have data to be absolutely certain, I would say a long time. But I think we already have enough data to know that the growth rate in the third quarter is going to be negative. I do not think there is too much doubt about that. The fourth quarter is going to be slower than anyone would like.

I am still not willing to concede that our economy does not have the resiliency not to bounce back in a way that may be surprising to us. But conventional wisdom at the moment, is the fourth quarter is negative, and maybe the first quarter is negative, and then you begin getting shades of disagreement among forecasters.

I make a point which I think is a really important point: no one really knows. If you want to know what the facts are about last week's credit card sales, I can tell you that. If you want to know what next week's credit card sales are, I do not know, and neither does anyone else.

So I think we have to recognize that we are dealing with shades of opinion, some of which you should value, some of which you should not pay any attention to. That is the difficult part of our business.

We are playing into a situation where we are going to have to go with best guesses. I think even Chairman Greenspan is going to not tell you that the data is absolutely certain.

Senator SNOWE. Thank you.

The CHAIRMAN. Thank you very much, Senator.

Senator Nickles?

Senator NICKLES. Mr. Secretary, thank you very much. Mr. Chairman, thank you as well.

Mr. Secretary, I was concerned by a statement either you made, or was attributed to you, that you were at least open to the consideration, or supportive of the consideration of raising the minimum wage. At this point, just a couple of facts. You said you are interested in data. We have never raised the minimum wage during a recession.

If we do, I am afraid we are going to price a lot of people out of the workplace. You are going to be hurting some of the people we would want to help. You are going to be hurting some of the industries we are trying to help.

If you look at a lot of the restaurants, if you looked at hotels, fast food, you look at a lot of convenience stores, look at a lot of the industries that are starting people to climb the economic ladder, if you raise that economic threshold from \$5.15 to, in a bill supported by many, that would take it up to \$6.65. I am afraid you are going to unemploy more people.

I just think that is the wrong thing to do, and I want you to know that there are a lot of us that think that would be very foolhardy, very foolish, and it would hurt a lot of people. It may help some people. It may give some people a raise. But you may be pricing some people out of the marketplace, and I think it would be a very bad mistake. So, I just want you to know.

I guess I will ask the question, are you advocating an increase in the minimum wage?

Secretary O'NEILL. Senator, I have had public record and opinion on an awful lot of things. I do not think you can find anyplace, ever, that I have ever had a public opinion about this. Maybe I should not now.

But, in anticipation of coming to this meeting, yesterday when I met with the President, I talked to him about it. The President reminded me, during the campaign I was asked about this question repeatedly. As a candidate, I—the President—had an open mind about this question about the minimum wage. The President said to me, if they ask you about this tomorrow, Paul, tell them what I said on the campaign trail, that I had an open mind.

But also observe that, as we look at what is happening now in the travel-related industries, particularly, that an awful lot of the people that are being affected by the consequences of a sharp reduction in air travel, in restaurants, in hotels, and the rest are people who at the minimum wage.

We do not want to do things that will impact that important part of our population. Is that a direct answer? No. But it is how the President feels about, on the one hand, under different economic circumstances and given where we are now.

Again, I said, Senator, when you were out of the room, the President's instruction to me was, work with the members of Congress to fashion a package that we can all be proud of, that meets the test of being a correct program as best we know what that is, to help with consumer demand, to help with investment demand, and to help those that were directly affected by the events of September the 11th. That is the guidance.

As I said to Senator Thompson, I think we are all going to be measured, whether we are really worthy of being entrusted with the good faith of the American citizens, whether we can cobble together a package that meets that test.

Senator NICKLES. Mr. Secretary, let me make a couple of suggestions as you, and we, are trying to craft an economic package together of things that I think would have significant economic impact and do not cost a lot.

Corporate AMT. It helps the industries that are really hurting. You can do it quickly and it does not cost very much. It is good policy. It is good long-term policy. I have heard that mentioned in your criteria.

A move towards expensing. We have talked about increasing it for small business. But the more you can expense, frankly, and allow people to recoup their investment over a shorter period of time, you are encouraging the investment, and you do not make them stretch it out.

On accelerated depreciation, most people do that with the blank white brush. I would say we need to do it for those industries that, really, the depreciation schedules do not make sense. There are a lot of them out there. Software and computer equipment, you have to depreciate over 5 or 7 years, and it should be 2, 3, or 1, or expensed.

Household/leasehold improvements, you have to expense over the lifetime of the asset. In a big building, that is 39 years. You have to probably redo it probably every 7 or 10 years.

So, let us look at those industries where we can come together and say, wait a minute, there are some of these schedules that make no sense whatsoever. That is good long-term policy, and also will be stimulative in the process.

I would also encourage you to make the Code permanent, maybe accelerating the 203 or 204 up to 2002, would help. I think we can do those things. They would all be good policy and, frankly, would not cost that much. But they would be stimulative in the process. The bigger that expensing provision could be, the more stimulative it would be.

Doing the minimum wage would be counterproductive. I do not want to do something that is dampening to the economy, I want to do positive things. So let us do no harm in this package. Thank you very much.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator. I agree with you. Some of the depreciation schedules in the Code do not make any sense whatsoever. The first appropriate opportunity, they should be addressed. I do not know whether this is that appropriate opportunity or not.

Clearly, if we could make some changes that are not too controversial and do not bog down and condense the ball here, we should take advantage of the situation and make some changes. So I think one of our main criteria here, is to do all we can that is quick, that gets done, but is not too controversial. You made some good suggestions.

Senator NICKLES. Thank you.

The CHAIRMAN. One thing I might do at this point, Mr. Secretary, is explore with you a little bit some of the points made by Senator Thompson and some others about, how stimulative are the general provisions that you and I discussed earlier in this hearing.

There is some concern, there is some slight difference of opinion. I, like you, think that, when you look at the facts, you are able to better determine whether the assumptions behind one's conclusions are as valid as we assume them to be.

Could you just explore with us a little bit why you apparently do believe, the administration does believe, that extending unemployment insurance is the right thing to do? The degree to which that is stimulative, is also a question I might ask.

My view is that it is not only the right thing to do because people are thrown out of work and need some help, but also because they are thrown out of work and they will get a paycheck, that they are going to spend that money. My guess is, it is quite stimulative.

Then the payroll tax rebates. That is, payroll taxpayers receive a rebate. It is my thought that, irrespective of the efficacy or the agility of the last rebate, that is, how many dollars people actually spent as opposed to saved, that middle income and lower income taxpayers, as payroll taxpayers, receive a rebate and are going to have a greater inclination to spend than save, certainly more than a higher income taxpayer who would get the same rebate.

So, it is my judgment that that is quite stimulative. It is a perfect stimulus. Nothing is perfect, but it is certainly is good. We cannot let perfection be the enemy of the good here. It is good stimulus.

Also, the bonus depreciation ideas that we have been talking about, or expensing, and accelerated depreciation. It is, arguably, quite stimulative because it encourages a business person to spend now in investment rather than later.

Although one might ask, how stimulative is it, really, when there is over-capacity right now, or unused capacity? It was quite high, it is my understanding, in the old economy, and it is even higher in the new economy.

But your thoughts on why you think some of the ideas that the President and administration are talking about are stimulative, because it is a legitimate question that has been addressed here, and I think it is important for us to flesh that out.

Secretary O'NEILL. All right. Let us start, as you did, with a possible extension of unemployment insurance. For myself, I would not argue that this is a stimulative effect. It is dealing with a human compassion aspect of the higher levels of unemployment and longer durations of unemployment.

While we are taking actions that are direct and have some immediate consequence, as we did with the liquidity support for the airlines, it seems to me we should not leave out of that consideration the possibility of an extension of duration of unemployment insurance benefits.

I do not make a case that this is a stimulus. It is income support for people who otherwise, perhaps, would be forced off of unemployment insurance into welfare. So, it is on that ground that I would say it is a useful thing to do.

Now, with regard to a one-time income support for people who did not get a rebate in the previous round, I think what economic theory tells you is if you give someone, let us say, \$300 and it is a one-time event, yes, they will spend the money. But it does not have a multiplier effect.

What I mean by that, is this. If you give someone \$300 and it is a one-time event, as distinguished from giving someone a permanent \$300 reduction in their tax liability with a one-shot \$300, you do not change behavior.

With a forever change in the tax obligation of an individual, you change behavior. Because with \$300 you can go and buy something that costs \$300. With \$300 in perpetuity, you can have a different idea about what kind of house you own, or what kind of a car you buy, because you, in effect, have the ability to think about that \$300 as interest service costs that you could pledge for something that you want to buy. So, there is a distinction between one-time events and longer term events.

Expensing in the way we are talking about expensing is kind of a middle ground because the immediate effect of, say, a 25 or 30 percent change in the rates of expensing would bunch up economic value to investors and it would create an immediate cash flow which has a present value that goes on, and on, and on.

Now, the reason it does not stay at the same rate, is because once everyone who is doing investing gets onto a new depreciation

or expensing schedule, then you are at what systems theorists would call a steady state, and all other things being equal, there is not any additional stimulus provided.

So as we work our way through these different intervention things, we need to be mindful of the duration and the impact on the distributional effects of different things that we can consider.

The CHAIRMAN. I want to make sure I understood you correctly. With respect to the second item, do you think that is or is not a stimulus to the economy?

Secretary O'NEILL. Well, I think it is a one-shot stimulus. It does not have the multiplier effect of a permanent stimulus that people can count on year after year after year, so you do not get the carrying effect of people living with a different expectation of real disposable income.

The CHAIRMAN. But, on the other hand, a permanent tax cut or rebate would have an adverse effect on the budget.

Secretary O'NEILL. Absolutely. I say, we do not really want to do that. I do not think we want to make policy changes that have long carrying power, for the reason that I and Alan Greenspan testified here a couple of weeks ago.

We really do not want to jeopardize long-term interest rates because they are so important to the housing sector and to the rest of the economy if we start shutting down what has been a major part of our economic strength now for some time.

The CHAIRMAN. So the rebate to those roughly 30 million who did not receive the last one is about as good a stimulus as we can provide at this point, given the long-term constraints. Is that correct?

Secretary O'NEILL. It is all right for a short-term component of this total package.

The CHAIRMAN. Senator Thompson started this, to some degree. So, Senator, why do you not join in here?

Senator THOMPSON. Maybe briefly. Thank you. Thank you, Mr. Chairman.

It would seem, in regard to some of these items, including the payroll tax reduction, that we would not have any reason to believe the consumer would deal with it any differently than they are dealing with the checks they are receiving now from the tax rebate. They say about 18 percent is expenditure and the rest is savings.

It would seem that a payroll tax reduction does not create consumer confidence, but it can be beneficial after there already is consumer confidence. Would that be a fair statement to make?

Secretary O'NEILL. Well, first of all, I want to be clear. It is not obvious to me that we ought to tinker with a payroll tax. I honestly do not think that is a good idea.

The notion that perhaps we should give some assistance to people who are in the workforce but did not receive anything in the first leg of a tax reform system, is an idea worth looking at. You can see different amounts of money, depending on how you design the program. I do not think we should fool around with it.

Senator THOMPSON. Because you are going to bring the whole issue of Social Security into play.

Secretary O'NEILL. I do not want to do that. I do not think that is advisable. It should not be part of this discussion.

We should assure everyone that Social Security is fine, the benefits are going to be paid. They should have no doubt about that. We should not confuse the American people by tangling up any of those questions with what we may or may not do in providing a stimulus package.

Senator THOMPSON. I agree.

We are talking about a lot of possibilities here. I can see where business people would be out there trying to guess what may or may not happen.

I understand there is precedent for maybe an announcement Mr. Chairman, by the leaders of the appropriate committees, that any packages we come up with would have a certain effective date.

Have you given any thought to that, or would that be a wise thing to do?

Secretary O'NEILL. Indeed, I have. As a matter of fact, I got a letter yesterday—I am not sure that you all got distribution of this letter or not—from Michael Boskin, the former chairman of CEA, suggesting very strongly that, whatever you all may do, it would make a lot of sense to make any expense or depreciation schedule changes retroactive to the 11th of September.

It seems that, if we can act in the next two or three weeks, then we will not have people delaying decisions and playing games about prospective benefits. That makes a lot of sense to me, Senator.

Senator THOMPSON. Right. Well, I appreciate that. I know the Chairman will take that into consideration.

Finally, on the issue that we cannot really ever avoid in these discussions: the age-old debate about static analysis of the economy. That concerns me here, because we are still doing that. I guess you can say the bond traders doing that.

I think they are not concerned that, when we cut taxes, that we are going to be losing that much revenue. They are concerned that we are going to continue spending in a way that is going to offset anything else.

But, it really seems to me we should avoid the mistake of relying so much on temporary fixes that will not have the requisite inducement that we need, with the notion that we are dealing in a static world, in a static economy, and it will be a net loss.

If it is not going to be something that is of long-term economic benefit and will induce growth, then we should not do it temporary or permanent. If we should do it, it seems to me like we should do it permanently.

I would welcome any comment if you care to, but I just thought I would, from one person's standpoint, make that point. It is being discussed an awful lot. It is a natural thing, I think, to consider. But, it really concerns me that we may be looking too short-term at the whole problem.

Secretary O'NEILL. Again, Senator, I would say, as we look at and put ourselves to the test of being sure that the things we do have good economic value short- and long-term, that the most desirable ones are instruments that we might use, like accelerating rate reductions or expensing that have a near-term consequence, but they taper over time, so that they are permanent, but they do not add to what we have already decided.

Senator THOMPSON. Thank you very much.
Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.
Senator Snowe?

Senator SNOWE. Thank you, Mr. Chairman.

Just to follow up, Mr. Secretary, do you agree that the stimulus package should be in the neighborhood of, what, \$50 billion?

Secretary O'NEILL. \$60 to \$75 billion is the instruction I was given.

Senator SNOWE. \$60 to \$75 billion.

So in the confines of that amount of money, and in order to provide assurances that we do not have negative consequences for the long-term in terms of interest rates that affect mortgage rates and everything else we do in our economy, or hopefully to sustain the surpluses for the future, what would you consider in that rate for \$60 to 75 billion that would be not temporary and that will not have that impact?

Because I really do think that there is a lot of confusion here, and it has been less than clarifying about what should define temporary. Everything that we have heard to date has suggested that it should be temporary.

A number of economists appeared before the Senate Budget Committee a couple of days ago. Everybody suggested temporary, not affecting future surpluses, not affecting the interest rates. We heard that from Chairman Greenspan and Secretary Rubin.

So I think that we are going to have to be very definitive about what we are talking about that does not have a lasting impact, because if on one hand we are saying it is temporary but it really is not, we need to know that. Many are suggesting defining the duration in which these provisions would take effect.

I am not so sure, frankly, even for business expensing. I mean, you could do that for a couple of years to get us over the hump. What we are talking about here seems to be as much concern about the foundation for our economic future long-term, people feel good about it.

It is getting over this hump right now that was fragile to begin with, but obviously has eroded significantly since September 11th. But it has been building up, and unfortunately we had this horrendous impact and event on September 11th.

So how are we going to approach this "temporary," because I am not clear on that?

Secretary O'NEILL. All right. Let me give you a concrete example with numbers to illustrate the point.

You all have already voted, and the President has signed, a tax reform bill that will provide lower marginal tax rates, beginning in 2004.

Senator SNOWE. Right.

Secretary O'NEILL. And if you all were to decide as part of this package that you wanted to advance the effective date of those marginal rate reductions, and this depends on how fast and who is included, but let me use some notional numbers.

If you all decided you were going to do that as part of this package, you could make a case that you are going to add \$25 billion, that it will go to accelerate the effective date for the lower tax rates

so that it would have an effect for 2002 and 2003, and in 2004 it would not have any effect over what you already decided to do.

So, in that sense, it is temporary, but it is part of the permanent law and it has a short-term stimulus effect that does not keep going, and going, and going.

Senator SNOWE. Do you think that that would be a powerful enough incentive to maximize the effect on the short-term as a stimulus?

Secretary O'NEILL. Well, as part of the total package, I think there is a good case that can be made in the range the President has instructed me to work with you all, in addition to the \$50 or 55 billion that is already in motion, with something on the order of another \$60 to \$75 billion. I think, in combination, carefully constructed, it could make a difference and that it is prudent to do it.

Senator SNOWE. And on the business side?

Secretary O'NEILL. Well, again, looking at the alternative ways of doing this, the Chairman and others have said expensing looks like a good idea to them, and I agree with them. I think there is a way to craft an expensing package that will be of immediate assistance with a tapering cost to the society.

Again, we need to lay these data out and show them to you and share them with you so you have confidence and understand how these pieces can fit together, and we do not blow ourselves out of the water by providing a long-term obligation to the society when we meant to do something with immediate consequence.

Senator SNOWE. Well, I suppose we could consider accelerating the child tax credit as a further increase in 2004. That would be another way of addressing it.

Secretary O'NEILL. These are things that one can consider.

Senator SNOWE. Well, I hope we reach a consensus on, one, in terms of what is defined by being temporary, but not having a longlasting impact on our financial position, because obviously that perception could have an immediate on interest rates and other aspects of our economy.

Second, what is going to be the most powerful incentive to have the most effect on the short-term status of our economy? That, clearly, has to happen, otherwise we will certainly have failed, in my opinion, to do what we need to do to overcome the present circumstances.

Thank you.

The CHAIRMAN. Thank you very much, Senator.

Thank you very much, Mr. Secretary. This has been very helpful. We need many more meetings, clearly, but I thank you for your approach and your tone, and your cooperative attitude. Thank you very much.

Secretary O'NEILL. Thank you.

[Whereupon, at 1:09 p.m., the hearing was concluded.]

APPENDIX

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

PREPARED STATEMENT OF HON. CHARLES E. GRASSLEY

Today's hearing will look at ways to stimulate our faltering economy in the wake of the horrific terrorist attacks of September 11.

There is no question that we have got to provide an immediate stimulus to the economy. Consumer confidence in the economy in the United States economy plunged last month to the lowest level since January 1996, according to the Conference Board. Many economists believe that we are in or very close to a recession.

As we go forward, I believe it is also vitally important to keep our eye on the global economy. International financial markets are more closely linked than at any time in our history. What happens in this country, in our markets, to our economy, resonates throughout the world within minutes.

A growing number of private economists now believe that the global economy, already weak before the terrorist attacks, is now headed into recession.

The shock to confidence and wealth is now affecting consumers and investors around the world.

So even though today's hearing is about whether and how to provide an effective stimulus to our domestic economy, we cannot and must not overlook what is happening abroad.

If we are indeed close to a global recession, the destruction of economic value will harm every nation, and hurt every working family in every part of the world.

In light of this, I believe it is especially important that we embrace a trade policy that gives us the greatest possible flexibility in reducing tariffs and non-tariff trade barriers everywhere.

In order to effectively pursue this type of flexible, open, market-oriented trade policy, we need to renew the President's trade promotion authority.

We need to renew it this year. Because the consequences of a possible global recession are so severe, we can't afford to wait to renew the President's trade negotiating authority to next year, or two years from now.

The last time we had a real global recession was in the 1930s. And we all know the enormity of the economic devastation of the 1930s.

One of the key contributing factors to this devastation was that at the same time that the world economy was slowing down, the United States and other countries erected protectionist trade barriers. By the time we started to change course with the Reciprocal Trade Agreements Act in 1934, it was too late. The damage was done.

So I hope that we recognize the very large significance of free trade to this equation.

We need to boots the world economy.

We need to restore the confidence of global investors in our economy.

As Alan Greenspan told this Committee the other week, we need trade promotion authority to counter the impulse to pull pack in our economic activity.

In the days ahead, I am going to push as hard as I can for bipartisan legislation to renew the President's trade negotiating authority.

I want to see legislation that will give the President the broadest possible scope of negotiating authority, so he can negotiate for the reduction of tariffs on a multi-lateral, regional, or bilateral basis.

I also want to see trade negotiating authority legislation that gives Congress the ability to effectively oversee trade negotiations, but that does not unnecessarily constrain the President's ability to have a completed trade deal considered on its merits before the full Senate.

At this time of global economic uncertainty, the United States has got to lead the way in preserving the global trading system that has added so much to our prosperity and freedom.

To accomplish this, the President has got to have as much credibility at the negotiating table as he can get.

That's the only way he will have the credibility and authority he needs to conclude trade deals that will benefit America's workers and farmers.

PREPARED STATEMENT OF HON. PAUL H. O'NEILL

Chairman Baucus, ranking member Grassley, and members of the Finance Committee. I want to thank you for the opportunity to appear before you this morning.

Let me start out by saying: the foundations of the U.S. economy, like the resolve of the American people, remains unshakably strong despite the terrorist attacks on September 11. This nation, its people, and its economy will continue to excel over the long run as we have in the past.

That does not mean that every thing is as we would like it to be.

Let me begin by discussing with you where I saw the economy heading before the September 11 attacks.

Starting in the summer of 2000, our economy struggled to throw off the effects of an unsustainable surge in investment in telecommunications and information technology. As investment plummeted in these sectors, the consumer kept the economy in barely positive growth territory.

In the third quarter of this year, leading up to September 11, I believe the economy was running at a low rate of growth and was likely to have concluded the quarter with a small but still positive growth rate.

The fourth quarter prospects were somewhat better, perhaps a real growth rate in the range of 1 to 2%. The 2002 outlook suggested a return to normal growth rates as the economy responded to favorable developments including:

- Stimulus to consumer spending from the tax rebates.
- Aggressive Federal Reserve easing during the first eight months of the year.
- Reduction of excess inventories, paving the way for future production gains.
- Easing of energy prices.

The terrorist attacks of September 11 created disruptions that swept through our economy very quickly. Our airways were shut down and all of the travel-associated industries effectively came to a halt. Consumers stayed home and, as a consequence, it now seems certain that when the numbers are tallied for the third quarter, they will show that our economy experienced negative real growth.

The first comprehensive economic information we receive on September—to be released on Friday—will not provide much information on the effect of the attacks, although private forecasters expect it will show an increase from the August unemployment rate of 4.9 percent. Since the Labor Department surveys reflect employment in the early part of the month, workers affected by the attacks presumably showed up on payrolls and were counted as employed. We shouldn't be surprised to see a further worsening when the October figures are released, as the post-September 11 layoff announcements are translated into actual job losses.

The depth of this contraction, as well as the pace at which the economy returns to a healthy rate of growth, will depend in large part on how fast consumers regain their confidence and on our success in incorporating new protections against possible terrorist acts without material reductions in productivity.

The fourth quarter numbers will depend on how quickly consumer confidence rebounds. In just the past week, it appears we are beginning to regain our economic footing. Consumers are returning to the stores, airline usage is increasing and there are buyers again for "big ticket" goods such as automobiles.

The Administration has worked with Congress to craft appropriate and timely policy responses to minimize the economic downturn. The fiscal policy stimulus in the pipeline is already substantial. It includes the Economic Growth and Tax Relief Reconciliation Act of 2001, which provided \$38 billion in tax rebates sent out in July, August, and September as well as increasing growth prospects by lowering marginal rates.

We've also taken significant steps since the terrorist attacks. The President and Congress have approved \$40 billion for meeting relief needs and increasing security measures, and have provided \$5 billion in direct relief to the airline industry, with up to another \$10 billion in loan guarantees to follow. Supporting this vital industry through this difficult period is crucial to restoring consumer confidence and maintaining thousands of jobs in the airline and related industries. And of course, the

Federal Reserve has lowered the Federal Funds rate by 400 basis points since January.

There is broad agreement that in order to have the appropriate impact on the economy the fiscal impact of an economic growth package should approximate 1 percent of GDP. With the actions already taken, about \$50 billion of spending has already been put in motion. Recognizing this, the President has instructed me to work with the appropriate members of Congress to formulate a package of actions with a fiscal year 2002 impact of \$60 to \$75 billion. The President believes, and there seems to be broad bipartisan agreement in the Congress, that we should take care not to put upward pressure on long-term interest rates.

It is clear that the components of the stimulus package are just as important as its size. I look forward to working with you to ensure that the package address three priorities: restoring consumer demand, supporting business investment, and helping those affected by the September 11 attacks. We welcome the positive comments from members of Congress on ways to help the economy. We are confident we can come together to create a fiscally responsible stimulus package that will restore confidence and prosperity in our economy.

In conclusion, I want to thank you again for this opportunity to come before you today. I will now take any questions you might have.

