



For Immediate Release  
January 22, 2008

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**Hearing Statement of Senator Max Baucus (D-Mont.)  
Strengthening America's Economy: Stimulus That Makes Sense**

Václav Havel once defined "hope" to mean "the certainty that something makes sense."

We meet today to evaluate what economic policy can give Americans hope. We meet to discuss what economic stimulus makes sense.

As we meet today, the economy is weak. The housing sector is in a slump. A larger credit crunch looms on the horizon.

Retail sales dropped in December. In the latest report, the unemployment rate jumped from 4.7 to 5.0 percent. Some states are already in a recession. And consumer expectations for a better economy are at a 16-year low.

Today, we'll consider the arguments for why the economy needs fiscal stimulus. And assuming that it does, we'll consider what kind of stimulus makes sense.

To help us answer these questions, we have Peter Orszag, Director of the Congressional Budget Office.

CBO just issued a report on fiscal stimulus. That report states: "There is a strong possibility of at least a few quarters of very slow growth" in calendar year 2008.

The Federal Reserve Board appears to believe that the economy is weak enough to need monetary stimulus. The Fed has already lowered its target for interest rates by one and three quarters percentage points. Last week, the Chairman of the Federal Reserve Board said that the Fed would "stand ready to take substantive additional action as needed to support growth and to provide adequate insurance against downside risks."

But will monetary stimulus be enough? There are reasons to believe that it might not. There are reasons why Congress might do well to provide fiscal stimulus.

For one thing, the glut of houses on the market right now might prevent lower interest rates from having their usual punch. For another, skittish lenders who have suffered losses as a result of the sub-prime mortgage crisis may remain reluctant to make loans, no matter how low interest rates go.

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Fiscal policy — if enacted quickly — can work faster than monetary policy. And we need to consider that the economy may be weak enough that we may need fiscal stimulus to augment monetary stimulus.

Economists differ on the odds of a recession. But either way, fiscal stimulus could be valuable to improve otherwise weak economic growth, even if we're not technically in a recession.

If fiscal stimulus is needed, what kind of fiscal stimulus should we enact? A consensus is growing that it must be three things: timely, targeted, and temporary.

Stimulus occurs when households and businesses spend any additional income that they receive, rather than save it. To get households and businesses to spend more money, the Government can do two things: cut taxes or increase spending.

Fiscal stimulus must be timely. That means that once enacted, the stimulus must take effect quickly. It needs to be out the door quickly so that the intended recipient can spend it quickly. Spending in 2011 will not avert a recession in 2008.

Fiscal stimulus should be well-targeted. Stimulus should be targeted on those who most need the help. And stimulus should be targeted on those who will spend the money quickest.

Lower- and middle-income households are the ones most likely to need additional income during a recession. And because the financial resources of these households are more limited, they are also the ones who will be likely to spend the money quickly.

And fiscal stimulus must be temporary. If fiscal stimulus extends beyond the end of the recession, it could overheat an expanding economy, causing inflation. Moreover, permanent fiscal stimulus would increase Federal budget deficits.

So let us think through what sort of economic stimulus makes sense. Let us see what stimulus can be timely, targeted, and temporary. And let us imagine what sort of economic stimulus can help to give Americans renewed hope.

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