

**Statement of Senator Paul Sarbanes
Democratic Policy Committee Hearing on the Budget Deficit**

January 20, 2004

Thank you, Mr. Chairman. I want to commend you for calling this very timely hearing to review our nation's deteriorating fiscal situation and the impact of long-term deficits on America's future economic growth and job creation. This hearing is timely because this evening, the President will be outlining his budget priorities for the coming year, which will give us some insight into whether this Administration plans to address the very serious economic problems we are now facing, or squander yet another opportunity to invest in America and prepare for the future. Regrettably, based on reports that have been released about the President's speech tonight, I am very concerned that we will pass by this opportunity to put our fiscal house in order. This Administration appears to have only one goal: to cut taxes for the very wealthy, regardless of the consequences for America's future.

This policy became evident just as soon as President Bush came into office. One of his very first initiatives was to propose a \$1.6 trillion tax cut skewed very heavily to the wealthiest of Americans. That tax cut, and the two that followed, have been responsible for a dramatic decline in our fiscal position. If those tax cuts continue in effect, the Congressional Budget Office estimates that the federal deficit will exceed \$400 billion per year for the next decade and beyond. Federal debt will rise commensurably, meaning trillions more in debt and interest costs that our children and our children's children will eventually have to pay off.

When he proposed his first tax cut in 2001, President Bush made three promises. He claimed that, "[this] plan is good for the long-term health of our economy. It is good for the businesses that create jobs. It is good for America and for the American families that make our country so unique and strong." (Remarks by President Bush, February 5, 2001).

Each of these statements has turned out to be an empty promise. In fact, the long-term health of our economy is in jeopardy as a result of the structural deficits created by these inordinately large tax cuts. Former Treasury Secretary Robert Rubin and several other economists recently released a paper which described the adverse effects of long-term deficits, including higher interest rates and greater dependence on foreign capital. The International Monetary Fund has also warned of the consequences of sustained budget deficits, which they say could lead to "upward pressure on interest rates, crowding out of private investment, and an erosion of longer-term U.S. productivity growth."

Secondly, the President's record of job creation has been abysmal. The economy has lost 2.9 million private-sector jobs since President Bush took office. In no Administration since Herbert Hoover's has the economy failed to have net job creation. There are 8.4 million unemployed Americans looking for work today who cannot find it. That is 2.5 million more than when President Bush took office. Of those who are unemployed, 22.3 percent are long-term unemployed – they have been unable to find work for more than 26 weeks. The level of long-term unemployment has been above 20% now for 15 consecutive months. This is the worst performance since 1983.

It is worth placing the weakness of this labor market in an historical context. Never before, since our monthly job statistics began at the end of the Depression in 1939, have job losses persisted for so long beyond a recession. We have had eleven recessions since 1939. For the first ten recessions, all the lost jobs were fully recovered within 31 months of the start of the recession. In other words, by the 31st month (and usually much sooner), new records were being set in terms of the number of jobs. This time, 33

months after the last recession began, we haven't simply failed to recover the number of jobs we had in March 2001, but we remain down by an extraordinary 2.4 million jobs.

Nor has President Bush kept his promise to American families. The President did not support continuing extended unemployment insurance benefits to the long-term unemployed. Between 2000 and 2002 the typical American family has seen their household income fall by almost \$1,400. Over that same time period, 3 million more Americans are living in poverty, and 3.8 million more Americans have lost their health insurance.

I think the evidence is clear: this Administration's single-minded focus on cutting taxes has left us with millions of unemployed Americans today, and massive deficits and debt tomorrow. The three promises President Bush made when he announced his first set of tax cuts are still unfulfilled. And yet, by all reports, the President is poised tonight to announce even more tax cuts targeted to the wealthy. The President's continued adherence to this failed fiscal policy shows just how out of touch this Administration has become with the needs of the American people.

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