



BUDGET COMMITTEE



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For Immediate Release

January 30, 2008

Senator Gregg's Opening Statement At Budget Committee Hearing on Economic Stimulus January 30, 2008

Thank you, Senator Conrad. Many of the numbers that you cited are numbers which set the table appropriately, relative to the issue of the economic slowdown. The question is, what should the federal government do?

Any stimulus package, in my humble opinion, should be a real stimulus package, and that means it should be targeted on this quarter, the next quarter and the following quarter, the first three quarters of this year. My guess is that most of what the Fed is going to do, and this was testimony actually from Dr. Orszag, will have an impact beginning aggressively in the third and fourth quarters of this year. And then we need to be careful that the stimulus package is well-focused as a result of that and doesn't end up incurring costs in stimulus outside of what is the period when we expect the slowdown to occur.

We also have to understand that any stimulus package is going to be funded by debt, and I noticed in your numbers and I presume that this is reasonable, that you did not calculate in the interest, I don't think, on the debt, that all this is going to cost. But our calculation is that a \$150 billion stimulus package today over five years will have about a \$36 billion debt cost and over ten years will have about an \$80 billion debt cost. So you're talking packages which are truly going to cost our kids around \$200 billion bucks.

And what are they going to get for that? What is the economy going to get for that? Well, I'm not a great fan of the House package, but it appears to be the high-water mark when you compare it to the Senate package. Because the Senate package, for some unknown reason, is now lifting the cap and saying let's send \$500 to everybody, so we'll fly across the country in a plane and throw money out of the plane to everybody, and what's the practical implication of that?

Well, with high-income people, first off, it's unlikely that rebate is going to get out the door very quickly – if it gets out by the middle of June we'd be fortunate – and that means it's probably not going to impact us until the third quarter, and with high-income people, it's probably going to be saved. It's probably not going to go into demand stimulus, which is what usually you are looking for.

Secondly, as a very practical matter, if you extend the unemployment insurance as is proposed in the Senate Finance Committee package, you end up with a situation where at 5% unemployment right now in most of this country – some places at well under 5% like in New Hampshire – it's very hard to defend extending unemployment insurance as an economic stimulus event because if you're in what is a relatively full-employment economy, it simply creates more of an incentive for people not to go out and find a job. Most people find their jobs in the last couple of weeks of their unemployment insurance, and if you extend it for a year, which is what is proposed in the package, you basically end up with a situation where if that extension occurs in states where you have fairly close to full employment, you're not going to get much stimulus out of that package.

Any unemployment extension should, in my humble opinion, be tied to trigger which says it occurs in states where the unemployment has reached an historic level which is deemed to be not full employment, such as 5.7% or 5.8%, which is the historic number we've been looking at. There's no trigger in the proposed package here, and it is a bigger package as a result of that.

Also, I'm not sure how this Net Operating Loss (NOL) in the Senate Finance Committee package works. I've heard different statements that you get the NOL if you don't take advantage of the accelerated depreciation but if you take advantage of the accelerated depreciation, then you can't take the NOL. I'm not sure what the economic impact of that is.

I will say from my own personal standpoint that if you're going to do something to create long-term efficiencies in the economy, expensing, accelerated depreciation and NOL carry-back are probably positive things. But they're not going to have an immediate economic stimulus. But they will at least have a long-term effect, whereas simply giving people a rebate check – and in some instances, giving them a check even though they don't pay taxes – is probably not going to have any significant stimulus on the economy other than the psychological stimulus, because much of what will be purchased with that stimulus will be manufactured outside of the United States. And, as Dr. Orszag testified yesterday, if the \$500 is spent on a television manufactured in China, the stimulus to our economy is basically non-existent.

So this stimulus package is really, in my humble opinion, more about building confidence that the government can act and a divided government can come together and take action, than about actually having stimulus effect in the next two to three quarters, which is when we need it. In that context, the package that does the most good from a standpoint of the kumbaya factor is the House package. The package which does the most harm from that standpoint is probably the Senate package because it divides an already-agreed to understanding. But I have reservations about both, obviously.

However, that being said, I look forward to hearing from the witnesses what they think should be done and that's why they're here, and they are experts and highly regarded in their field and we appreciate them taking the time to testify.

