COMMITTEE ON APPROPRIATIONS

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SOME FACTS ON DEFICITS, JOBS, AND THE ECONOMY

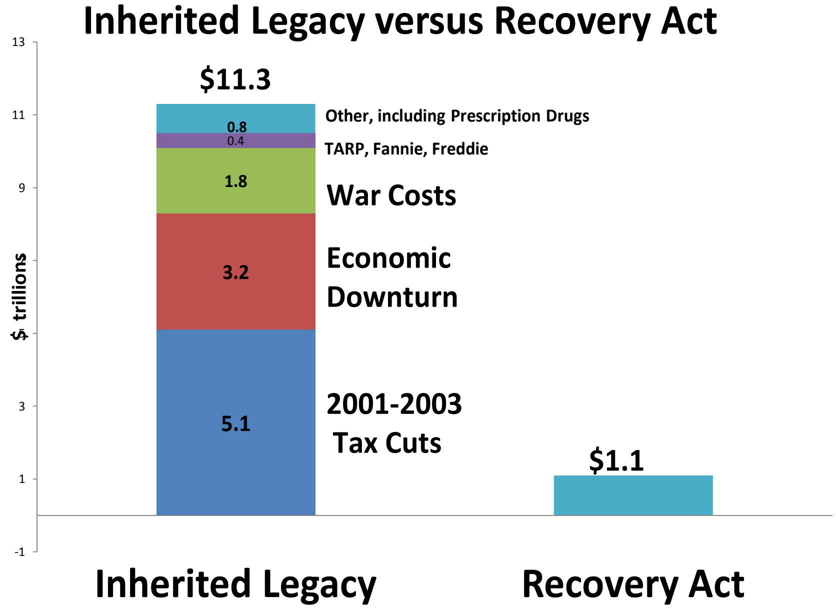
This country needs a clear discussion of the budget and economic situation facing it for the coming year. Plans for dealing with these problems need to be put in proper context. President Obama inherited four major cost drivers – the cost of two wars, the cost of TARP, the revenue loss due to the economic downturn, and the revenue loss due to two unpaid-for tax cuts benefiting the wealthy. These circumstances didn't happen overnight, and they can't be fixed overnight either.

However, the American people are very clear in their expectations. Their main concerns are jobs, family income and keeping the US strong – at home and abroad.

President Obama, as virtually his first action last year, asked Congress to pass an economic recovery package aimed at reducing job losses and preventing another Great Depression.

For context, the cost of the Recovery Act, including interest, is less than ten percent of the total inherited deficit legacy that we face over the coming years.

Sources of 2009-2019 Deficits:
Inherited Legacy versus Recovery Act



We must address the debt and budget deficits for the long term health of our nation. As we do so, we must not fail to deal with three other serious deficits: a <u>jobs</u> deficit, an <u>income</u> deficit, and an <u>opportunity</u> deficit.

The economy has lost 8.4 million jobs since December 2007. Almost one tenth of the labor force is unemployed and one-sixth is either unemployed or underemployed. To ease that job loss and to stop the shrinking of the economy we passed the Recovery Act. More than one third of the cost of the package came in the form of tax cuts, including the largest one-time tax cut for America's middle class. The Recovery Act also:

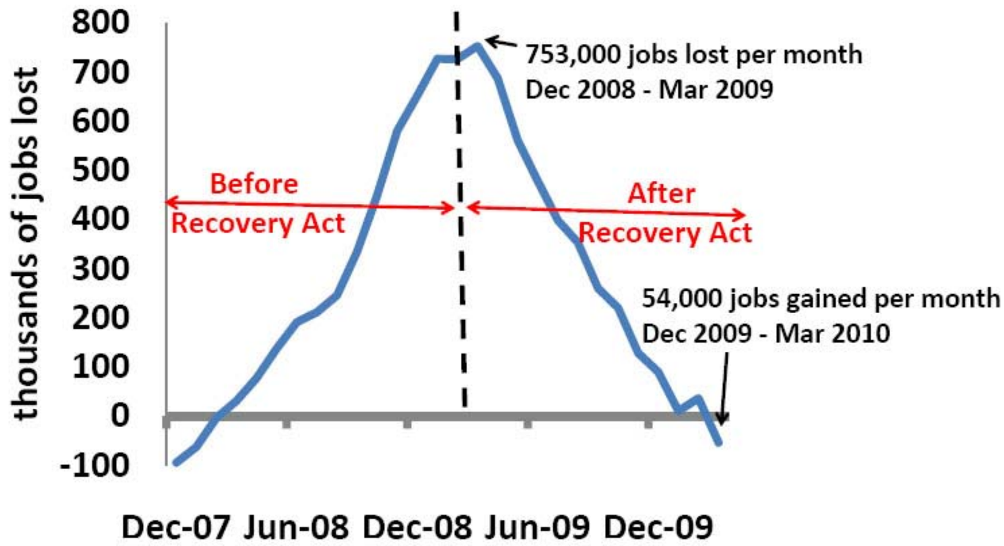
- Extended Unemployment Insurance for approximately 7 million jobless workers.
- Helped millions of workers who had lost their job to hang onto their health insurance by providing a 65% subsidy to those workers to make the COBRA program more affordable.
- Prevented layoffs of over 300,000 teachers and thousands of law enforcement personnel and fire fighters by helping states and local school districts ease the squeeze on local budgets until the economy begins to recover.
- Kept thousands of construction workers on the job by increasing temporary investments in highways, bridges, airports, and sewer and water projects. This is not only helping workers, but also helping communities position themselves for economic growth.
- Attacked the $300 billion per year that America is shipping to the Middle East to pay for foreign oil by investing in energy research and projects that will transform how our nation consumes energy.

We took these actions despite the fact that they would temporarily raise the deficit over the short term, because we recognized that the long term deficit will not come down unless the economy begins to grow enough to reverse the job loss and start putting people back to work. That is now finally beginning to happen.

We recognize we have to bring long term deficits down, but even as we do so we have to recognize that there are deficits and then there are deficits. We need to distinguish between deficit spending that is simply a form of short term gratification versus deficits that are run in the short term to finance investments that will strengthen the economy over the long haul. Policy makers are supposed to be able to distinguish between the two.

Some naysayers say that the Recovery Act has not saved a single job. If they cannot see that assertion is not true it is simply because they don't want to see. As chart two shows, between December 2008 and March 2009, the economy lost 753,000 jobs a month. We enacted the Recovery Act in February 2009 and it took several months to begin to take hold. As the chart demonstrates, job loss declined from an average high of 753,000 a month in January 2009 to finally adding 162,000 jobs last month. Last March, the economy lost 744,000 private sector jobs. In stark contrast, private sector jobs grew by 123,000 last month. The last year's turnaround in full time jobs is even more striking. We lost 1,059,000 full time jobs per month from December 2008 to March 2009. In the last three months, we've gained 334,000 full time jobs per month. This shows that the Recovery package has put us on the right path.

One Year After Recovery Act, Job Hemorrhage Ended, Jobs Begin Growing Again



After the long decline from December 2007, this change is welcome news, but none of us will be satisfied until the pace of job creation is accelerated. That's why the House has passed legislation that should help that problem over time, including:

- Providing additional tax credits for small businesses to hire new workers;
- Directing significant additional investment into community colleges and Pell Grants to help workers retool their skills and become more competitive in the changing job market;
- Passing the health reform bill, which will create a huge demand for doctors, nurses and other health professionals. It is estimated that over the next 10 years we will need an additional 4 million health professionals and we should start training them right now.

But, just as it takes a patient time to recover from a devastating illness, it will take a long time for this injured economy to regain full health. The hole in the economy was deep, and it will take time and constant effort to fill it.

Meanwhile, Wall Street banks are beginning to pay back taxpayers for the loans that the Bush Administration put in motion in September of 2008 in order to combat the collapse of the nation's and the worlds credit markets – a collapse that could have destroyed the economy.

The Bush Administration asked for, and was provided, the authority to use $700 billion under the TARP program to prevent the collapse of Wall Street banks. They used $300 billion. Since then, Wall Street has repaid $170 billion. So the net cost to the taxpayer of the Bush-led Wall Street $700 billion rescue effort has come down to less than $120 billion, even as the economy is beginning to recover.

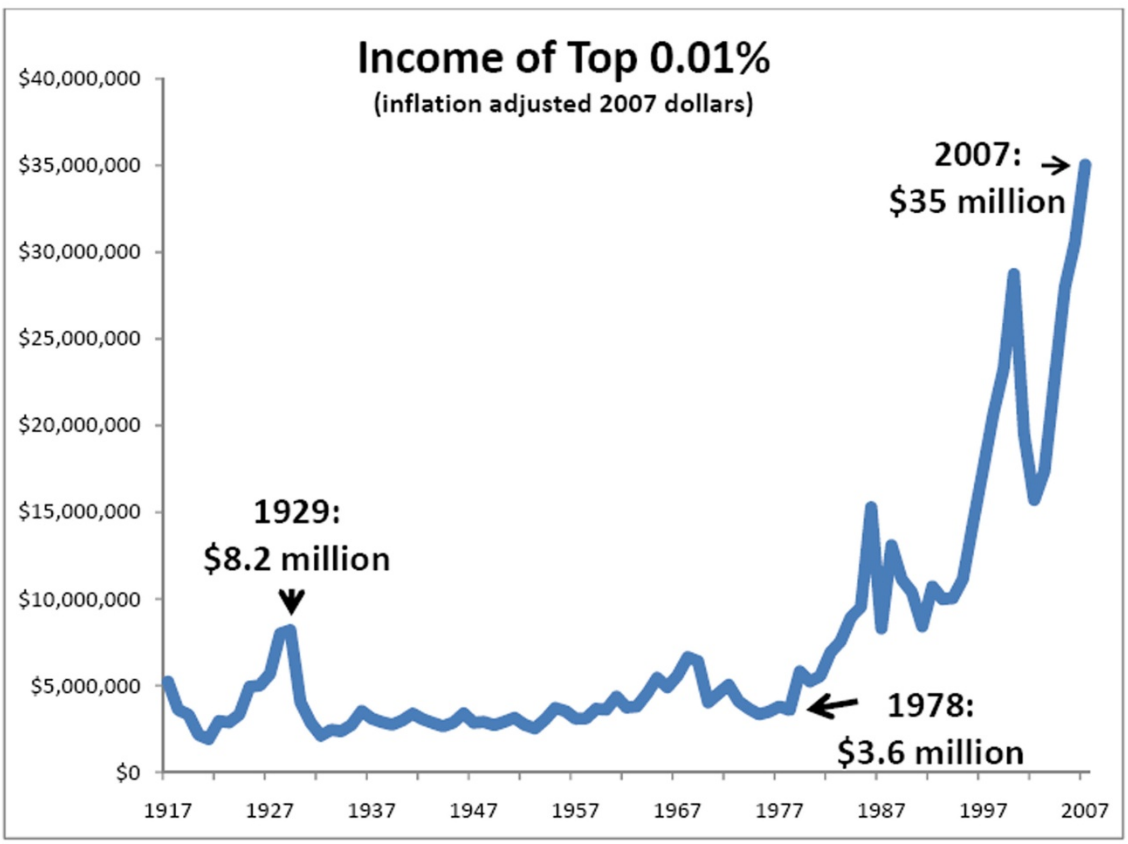
That is welcome news, but the Congress must now complete action on restoring competent and alert oversight of Wall Street to reign in the reckless gambling that threatened to swamp the entire financial system. The House has passed legislation to establish a new way to deal with this problem, which is aimed at assuring that there will never be another need for a taxpayer financed bailout because these institutions are regarded as too big to fail.

While the reckless gambling by Wall Street has resulted in adding billions of dollars to the federal deficit, the American people are also suffering from a different kind of deficit – an income deficit.

From the New Deal until a generation ago, incomes were growing at about the same rate for everyone – from working families to the richest among us. Since the 1970s, however, almost all income gains have gone to the top.

Income for the middle fifth of American families rose only 15 percent from 1979 to 2006, and most of that growth came about because women are working much longer hours each year than three decades ago. In contrast, those with incomes in the top ten percent saw their income grow 133%. Those in the top ten percent now receive half of all income in America.

Those even higher on the income ladder have had mindboggling income gains. In 2007, the average income of the top one hundredth of one percent reached $35 million, up almost ten-fold over the last three decades. Meanwhile the rest of society was getting table scraps. We have seen the largest transfer of income UP the income ladder in recorded economic history because of bad trade deals, unfair tax policy, toothless oversight of the loose financial activities of large corporations, and a systematic disinvestment in energy, science, education and other investment crucial to long term economic growth that benefits all Americans. In the midst of all of that, why shouldn't middle income taxpayers be angry?

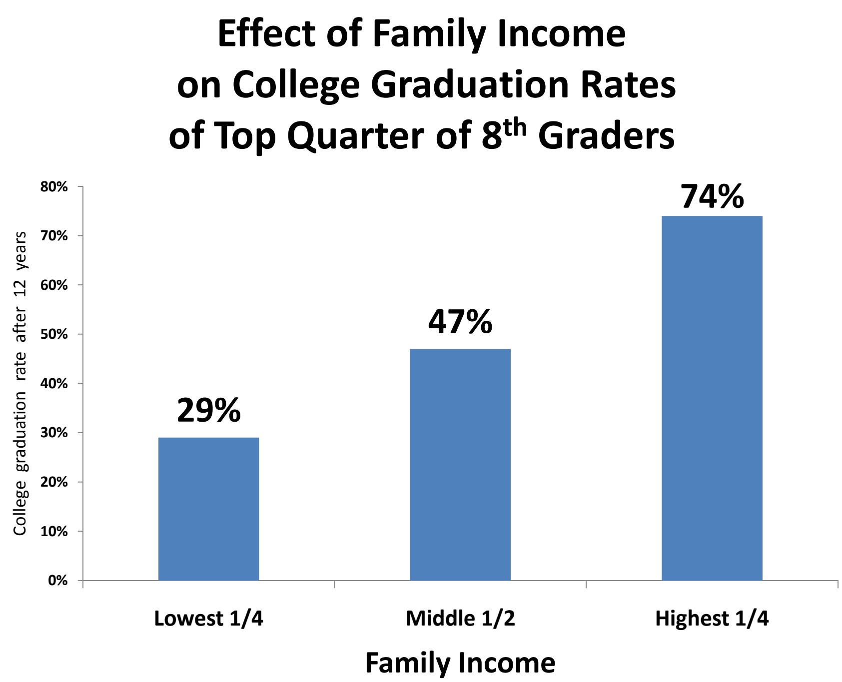


And since 2000, this income deficit has only been made worse by passage of huge tax cuts tilted toward the rich. Some are still pushing to eliminate the estate tax that affects only the richest. That is a prescription not to heal the patient but to poison it.

What can we do to restore balance and budget discipline? Enacting health care reforms should create an important safety net for working families. Allowing tax cuts for the top two percent of income to expire as scheduled would also make sense because it can help bring down the deficit.

And there is one more deficit we should confront – the opportunity deficit. The opportunity deficit is perhaps the most troubling of all that we face. One example: many studies have shown that family income is a greater determinant of college graduation than the aptitude of the student. Among students who scored in the top quarter on 8th grade math tests, the child of a wealthy family graduated from college 74 percent of the time, a middle class child graduated only 47% of the time and the child who came from a poor family graduated only 29 percent of the time even though they demonstrate the same ability.

As a matter of justice, we must provide these low and middle income kids the better educational opportunities they need and deserve. That is why we have just passed legislation which removes banks as the middle men in our student aid programs – saving $61 billion over ten years and moving most of those savings into an enhanced Pell Grant program, which is the main program on the books that helps students from lower and middle income families be able to afford to go to college and helps laid-off workers retool and upgrade their job skills.



So that is the context in which Administration budget and economic proposals should be analyzed – with the goal in mind of maximizing opportunity for everyone in this society and creating the conditions that will lead, over time, to enhanced job growth and a better shot at the American dream for everyone.