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The Center for National Policy (**CNP**), a non-profit, non-partisan public policy organization, is dedicated to promoting the public interest. Since its founding in 1981, CNP has served as a forum for debate and discussion and has been a significant player in developing policy alternatives that are responsive to and effectively serve the interests of all Americans.

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## Remarks by Senate Majority Leader Tom Daschle Delivered at the Center for National Policy

Friday, January 4, 2002

### *America's Economy: Rising to our New Challenges*

As we begin this new year, our nation is engaged in two great battles. One is literally about life and death; and that is our battle against global terrorism.

Our other battle will determine a great deal about how we live, and what kind of future we leave to our children. That's the battle to deal with the economic challenges facing our nation -- both short-term and long-term.

In the first battle, the battle against terrorism, President Bush and his national security team are doing a superb job. They've united our nation, and virtually the entire world, in defense of freedom and civilization. They deserve our support, and our praise.

Our men and women in uniform have been nothing short of heroic. They took on an assignment that some said was un-winnable, and they're winning. Not only are they bringing justice to the killers, they're helping to bring the people of Afghanistan their first real chance for peace in nearly a quarter-century. They are making our world safer, and making us all very proud. Next week, I'm going to be visiting some of our troops stationed in Central Asia, and I'm looking forward to it.

When it comes to our second battle, our economic battle, I think most Americans would probably agree that the news hasn't been so good lately. But there's no reason we can't win both of our battles. Americans are the most productive, most innovative workers in the world. We have the most advanced technologies. We are the people who pioneer new ideas and break new ground.

If we can root out a network of terrorists half a world away, we can solve the problems in our own economy. After all, unlike the war on terrorism, the economic battle is a battle we have fought many times before, and won.

The way we've won it has always been the same: by keeping our fiscal house in order, and by relying on comprehensive plans to keep our economy growing.

Today, I would like to make a case for a return to fiscal responsibility, and a comprehensive, new plan for economic growth.

We don't have to look back too far to see a template. A decade ago, our economy was shrinking, as we struggled to emerge from a recession. We were running record annual budget deficits, with no end in sight. From 1980 to 1992, our national debt had quadrupled.

development of a  
common agenda for  
democratic  
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21st Century

Some people feared we'd never get out of that fiscal hole. But we did. And we did it the old-fashioned way. In 1993, we made a decision: No more living beyond our means. No more borrow-and-spend and piling up mountains of debts to leave to our children and grandchildren. From that point on, we decided, everything we did had to fit into a new framework of fiscal discipline.

Fiscal discipline lowered our long-term interest rates and increased business confidence... which helped spark new investment... which produced strong economic growth... which lowered the deficits even more... which reduced long-term interest rates even further... which created more jobs and stronger economic growth.

By embracing fiscal discipline, investing in people and technology, and opening up new markets abroad, we helped lay a foundation for a new growth economy. Over the next eight years, we achieved broad-based economic growth. Businesses boomed and people benefitted. Corporate profits rose, and so did family incomes -- and not just at the top. We created more millionaires and billionaires in the 90s than at any time in our nation's history, while creating a boom that raised family incomes across the board.

More companies were started -- more people went to college -- and more Americans owned their own homes in the last decade than ever before in our nation's history. At this time last year, unemployment, inflation and long-term interest rates were all lower than they'd been in a generation. We'd disproved the old idea that you can't have low unemployment and low inflation at the same time.

While we were laying the foundation for a prosperous future -- we were also paying off the mistakes of the past.

In 1993, our economy was saddled with a record \$290 billion deficit, and that deficit was projected to grow substantially for years. By 2000, not only was the deficit gone, we had a record \$236 billion surplus -- and that surplus was expected to increase dramatically for years.

We'd also paid down more than \$400 billion of the trillions of dollars in debt the federal government had run up during the 1980s and early 90s, and were on a path to pay off the full debt. For the first time in years, the challenge of the Baby Boomers retirement, while still formidable, no longer seemed insurmountable.

For the first time in a generation, both our short-term, and our long-term, economic positions appeared strong.

Then, the inevitable happened: our economy started to cool. By last March, we now know, the expansion was officially over and a recession had begun. Every economic boom eventually slows down. When that happens, the question is not who is to blame, but what do we do to get the economy growing again? How we answer that question is critical, because it will determine -- to a large extent -- how deep the recession will be, how long it will last, and how strong the recovery will be.

Unfortunately, last spring, Republicans chose exactly the wrong solution. They made a huge tax cut their number one priority -- ahead of everything else -- and discarded the framework of fiscal

responsibility. They said their tax cut cost 1.3 trillion dollars. It is actually \$1.7 trillion when you include interest costs. And many experts believe the true costs are even more dramatic. The IMF, for instance, estimates the cost of the tax cut at \$2.5 trillion -- nearly a trillion dollars more than advertised.

Supporters of the tax cut said the surplus was so massive and so certain that we could have a huge tax cut, increase spending on education and the military, and provide prescription drug coverage. We could protect the Social Security surplus, pay off the entire federal debt in a decade, and still have enough money left over to get us through any unforeseen disasters.

What we got instead was the most dramatic fiscal deterioration in our nation's history.

Instead of the record surpluses we expected, the President's own budget director now says the federal government will run deficits until at least 2004. Instead of continuing to pay down the debt, the President's Treasury Secretary sent Congress a letter just after Thanksgiving asking us to approve raising the nation's debt limit.

There are those who say the reason the surplus deteriorated so quickly is the attacks on America and the war against terrorism. Clearly, September 11th was a major blow to our economy. And, to some industries, it's been devastating, especially travel and tourism, which is hugely important to my home state. But September 11th and the war aren't the only reasons the surplus is nearly gone. They're not even the biggest reasons. The biggest reason is the tax cut.

In May, the Congressional Budget Office reported a 10-year budget surplus of \$5.6 trillion. By the end of the year, \$3.7 trillion was gone. Nearly half of that was a direct result of the tax cut. The tax cut was by far the largest factor.

The rapidly disappearing surplus is a key reason long-term interest rates have barely budged. This, despite the fact that the Federal Reserve cut the short-term, federal funds rate a record 11 times last year. All together, the Federal Funds Rate dropped nearly 5 percentage points last year. Yet the 10-year Treasury rate ended the year almost exactly where it began.

Investors understand that the dwindling surplus means the federal government may have to borrow money soon or, at the very least, won't be paying down nearly as much of the debt as had been expected. That is keeping long-term interest rates higher than they would have been. And the continued high interest rates and the adverse impact on investor confidence, in turn, leads to less investment, less consumption, more job losses, and bigger deficits. That's the hidden tax of the current fiscal policies.

So, not only did the tax cut fail to prevent a recession, as its supporters said it would, it probably made the recession worse. It also put us in an unnecessary fiscal bind at the worst possible time. At a time when we need to fight both a war and a recession -- when our nation has urgent needs on all fronts -- the tax cut has taken away our flexibility and left us with only two choices -- both of them bad. We can shortchange critical needs, such as homeland defense, or we can

raid the Social Security surplus -- and even run deficits -- to pay for these critical needs.

We should not be in this position. A year ago, we had the resources and the flexibility to make virtually any urgent investments we needed. We don't have that flexibility, or those resources today, because Republicans chose ideology over experience. Experience showed that fiscal responsibility works. Ideology dictated tax cuts no matter what the circumstances.

I know a lot of good, fiscally conservative Republicans. South Dakota is a majority Republican state, and the people in my state are about as hard-working and fiscally conservative as you get. But the Republican agenda in Washington today is being written by a wing of the Republican party that isn't interested in fiscal discipline. They have one unchanging, unyielding solution that they offer for every problem: tax cuts that go disproportionately to the most affluent.

Democrats see things differently. We support tax cuts that work. But we want to make sure that any tax cuts we pass don't threaten the Social Security or Medicare reserves, crowd out other critical investments, or drive us deeper into debt.

President Bush deserves great praise for the way he is leading our armed forces. He's shown real leadership by setting aside partisan criticism of America's necessary involvement in multilateral military action and "nation building." And he's demonstrated statesmanship by re-engaging in the difficult work of the Middle East peace process, where American engagement is essential.

President Bush is absolutely right to use every tool at our disposal to fight the war on terrorism: diplomatic, military, financial, and humanitarian.

But we also have to use every tool at our disposal, including the right kind of tax cuts, in our battle to strengthen our economy.

America's greatest strength is our resolve and our unity in times of challenge. The world saw that again on September 11th and in the months that followed. If we can come through a tragedy as terrible as that, I have no doubt we can solve the economic challenges facing us, too.

We can restore fiscal integrity, keep America on the cutting edge of technology, and help Americans seize the extraordinary opportunities this new global, information economy affords. We can go back to paying off our debt rather than risk running up the deficit.

The first step is to get our economy back on track by passing a real economic stimulus plan.

In putting together a plan, we talked to business leaders in high tech, manufacturing, finance and other key industries. We consulted with Bob Rubin and Alan Greenspan, two of the chief architects of the economic success of the 1990s. On the basis of those discussions, we proposed a plan designed to increase consumer demand, and spur business investment.

Nearly 2 million Americans lost their jobs last year. New figures out this morning show the unemployment rate in December rose to 5.8 percent – the highest in six years.

We included unemployment and health care benefits for laid-off workers in our plan because, as any objective economist will tell you, it's one of the most effective ways to boost demand and pump money into the economy quickly. It's also the right thing to do.

To spur business investment and job creation, we proposed allowing businesses to write off a larger share of their investments immediately.

Our Republican friends like to describe the economic stimulus debate as a choice between Republican tax cuts and Democratic spending. The fact is, both of our economic stimulus proposals are more than 75 percent tax cuts.

The real difference is our tax cuts will keep people at work and keep the economy growing by stimulating economic activity right now. Their tax cuts have very little to do with sparking an economic recovery.

Sixty percent of their stimulus plan's five-year cost occurs after 2002. It occurs after the Administration and most economists believe the recovery will be well on its way. They also want to eliminate the corporate alternative minimum tax. Even if you think that's good economic policy -- and I don't -- it's not a stimulus.

Let me be clear about what I think needs to be done to stimulate the economy right now: We should move quickly to pass a bill that boosts demand, encourages investments and creates jobs. It should consist entirely of one-year measures that promote economic activity now -- when our economy needs it. And it should include nothing that will run up long-term deficits or drive up long-term interest rates. This adheres to the bipartisan principles established last fall.

Today, I am proposing two new ideas to try to get the economic stimulus debate back on track. First, we should pass a new Jobs Creation Tax Credit. This tax cut would be available to every business in America. It says, simply, that if you increase your payroll -- if you hire new people, restore hours that have been cut, or give your workers a raise -- you'll be reimbursed for all of the extra payroll taxes.

In addition, we know that many companies are deferring investments right now. Providing a robust depreciation bonus gives companies an incentive to make investments now, when the economy needs a boost. So today, I'm also proposing that we allow 40 percent bonus depreciation for the first six months and 20 percent for the next six months.

If you want to know whether this will work, just take a look at what's happened with car sales these last three months. When consumers were told that they'd be able to purchase a car with a zero percent interest rate, they shelved their financial uncertainty and purchased cars in record numbers. We want businesses to do the same thing when it comes to purchasing new equipment and technology.

I hope President Bush and our Republican colleagues will work with us in the spirit of compromise to pass an economic stimulus plan early this year, and put America back to work.

Second, in addition to the predictable costs like Social Security, we now have the new and urgent costs of homeland security.

If people don't feel safe about getting on an airplane, going about their business, and living their lives, our efforts to stimulate the economy won't work. We made a start last year with new airline security measures -- emergency assistance to help rebuild New York and the Pentagon -- and more funds for antibiotics and vaccines for anthrax and other kinds of bioterrorism. But that's only a small fraction of what we need to do if we're going to better protect against terrorist attacks and the economic damage they cause.

Consider just a few facts:

Right now, out of every 100 cargo containers that enter US ports each day, two are inspected.

Canadian intelligence sources estimate that 50 terrorist groups -- including Al Qaeda and Hamas -- operate within their borders. Yet we have only 300 agents working the 100 ports of entry along the 3,000-mile US-Canadian border.

Russia cannot account for some of its highly enriched uranium, and there have been 14 confirmed cases of trafficking in FISSILE material in that country.

Our public health system is dangerously under-prepared for the possibility of future biological attacks, like the anthrax attack on my office. Eighty percent of our cities and counties have no bioterror response plan. Some of our nation's best scientists are working in obsolete labs. A couple of years ago, a movie crew that was working on a film called *Outbreak* asked to shoot some scenes at the CDC labs. But the labs were so decrepit, the crew decided no one would believe that America's best public health scientists actually worked there. So they built a set instead.

In addition, we've done practically nothing since September 11th to improve cyber security, rail security, or security at America's nuclear and chemical plants. These gaps in our homeland security are unacceptable.

We ought to be pursuing homeland security with as much vigor as we are pursuing the war in Afghanistan.

Take, for example, the way we help protect Russia's nuclear material

and know-how. If we're serious about homeland security, we shouldn't be cutting programs that safeguard weapons of mass destruction and that support the experts who know how to make them -- we should be expanding them.

The highly successful Nunn-Lugar program should be extended to India and Pakistan. And it should be broadened to keep Russia's biological and chemical weapons material -- and know-how--from falling into the wrong hands.

Next week, I plan to visit what is known as the world's largest anthrax burial ground -- a site in Uzbekistan where Soviet scientists devised, tested, and then abandoned some of the deadliest biological and chemical weapons imaginable. We are rightly helping the Uzbeks decontaminate that site. But we can and should be doing more to ensure that Russian scientists, and their skills, are not misused.

Democrats worked hard last year to include \$15 billion in emergency homeland security investments as part of an economic stimulus measure. When that effort was blocked by the other party, we tried to include the homeland security in the defense appropriations bill. Again, we were prevented from doing so. It has since been reported that Governor Ridge will request \$15 billion in homeland security funding at some point this year.

While we welcome this news, we're puzzled by the timing. If Republicans had supported our proposal last month instead of blocking it, that money would already be available. As it stands, the money won't be available now for several months.

Homeland security itself will provide economic stimulus because it will increase confidence and spur spending. The federal government can't ignore the need for homeland security, and we can't push it off on the states. They're already looking at a combined budget shortfall of at least \$40 billion this year.

Today, we ask our Republican friends to work with us to protect Americans from terrorism. The firefighters and police officers and the other heroes are doing their jobs. Let's work together to do ours.

Passing a real economic stimulus plan and strengthening our homeland security are two things we must do now to get our economy back on track, but we can't stop there. We don't just need an economic stimulus plan. We need a comprehensive plan for economic growth.

As part of any plan for economic growth, the third and most important thing we should do is restore long-term fiscal integrity to our budget, so we can bring long-term interest rates down. When interest rates fall by two points, the average family with a \$100,000 mortgage saves \$2,000 a year. In a real sense, low interest rates are the best possible tax cut. They help families afford college, buy cars, purchase homes and pay off credit card debt.

Monetary policy alone can't bring down long-term interest rates if our long-term budget outlook remains so precarious. We know that. The federal government needs to show the markets that it has not abandoned fiscal discipline, but is still committed to it.

That is why I am asking the President today to submit to Congress not simply a one-year budget proposal, but a long-term plan to restore economic growth. We need a plan to return to fiscal discipline -- protect the Social Security and Medicare surpluses in the long-term -- and make essential investments in critical areas, including defense, homeland security, and education. It needs to be a real plan -- not one that relies on rosy scenarios or accounting gimmicks.

Fourth, we should invest in education, training, and technology to promote job creation and economic growth.

One of the keys to our economic success in the 1990s was a productivity revolution driven by information technology. In the last couple of years, the technology sector has gone through a shakeout. Now, it's poised to grow again. It's essential that the federal government continue to be a good partner, so that American tech companies can continue to lead the world.

Again, targeted tax cuts are part of the solution -- but only part.

Right now, we're importing hundreds of thousands of workers because our system cannot provide companies with the educated workers they need. Close that gap and everyone benefits: Companies get the skilled workers they need... workers get better jobs at better wages... and our economy becomes more innovative and productive. Closing that gap will require us to improve our entire system of education and training, so that kids come to school ready to learn and leave college and trade school ready to work.

Before Congress adjourned, we sent the President a new, bipartisan bill to strengthen America's public schools. The "No Child Left Behind Act" continues our bipartisan efforts to increase investment in educational quality. Now we need to build on it.

Schools are getting better. More people are going to college because of steps we took in the 90's to make college more affordable. But there is still a big gap between the skills of Americans who want to work and the skills that many jobs require.

In 1998, we worked together to craft a new training system to better respond to labor market needs. We now need to help that system meet the challenge of rising unemployment by renewing our commitment to training and lifelong learning.

We should also re-authorize our bipartisan welfare reform laws this year to ensure that people who have made the transition from welfare to work can remain in the workforce and not slide back into dependency.

In addition, we should act to make the research and development tax credit permanent -- the sooner, the better. Democrats included a permanent R&D tax credit in the tax cut plan we offered last year, but Republicans rejected it. Obviously, this is an expensive proposal. But the R&D tax credit is one of the most effective mechanisms to encourage innovation, increase business investment and keep the economy growing. We should work together to make it permanent.

High-speed, broadband Internet access has become an

indispensable tool for businesses, schools, libraries, and hospitals. And access to this service is fast becoming the line between the haves and have-nots in the information age. We should create tax credits, grants, and loans to make broadband service as universal tomorrow as telephone access is today.

Over the past century, federal investments in research have helped split the atom, sequence the genome, invent the microchip, the laser, and the Internet... and helped create millions of jobs.

In this century, nanotechnology, robotics, advanced energy technologies like fuel cells and solid state lighting, and biotechnologies like gene therapy, have the potential to do the same.

We should double civilian R&D funding, including funding for the National Science Foundation. And we should fully fund the Advanced Technology Program -- to speed these innovations to market.

It's critical that the Congress provide funding for a balanced research portfolio. Increasing the NIH budget is important, but it should not be the sole objective of U.S. science and technology policy. Expanded investments in areas such as physics, computer science, mathematics, and electrical engineering -- are essential to maintaining America's economic and technological leadership in the 21st century.

Fifth, we must open new markets and help workers who are hurt by trade. No country is better situated to thrive in this global information economy than the United States of America. That is why I support fast track and intend to bring it up for a vote in the full Senate early this year. In the Finance Committee, we passed a bill that addresses critical labor and environmental issues.

Our society as a whole benefits from greater trade and globalization. But we need to recognize that not everyone benefits. Some workers are displaced. We can't afford to leave those people behind -- for their sake, or ours. We need everyone's skills and contributions.

That is why, as part of our consideration of fast track, Senate Democrats are proposing to expand Trade Adjustment Assistance.

We believe that we should expand assistance to all workers who are hurt by global production shifts. That includes people who work for the suppliers and contractors of trade-affected companies. It also includes farmers.

We should help these workers learn the new skills they need to earn a living. We should help them maintain health insurance while they're unemployed. And help protect against wage loss when they become re-employed.

Expanded trade will provide billions and billions of dollars in economic growth for the United States. Certainly, we can dedicate a small fraction of this gain to those Americans who are harmed. It is the right thing to do, and frankly, it will be impossible to build a broad consensus for expanded trade unless we do it right.

Sixth, we need a balanced national energy plan.

We've seen in the last year that energy security is related to economic security and national security. We need an energy plan that truly moves us towards energy independence. Democrats have a plan that reduces our dependence on foreign oil, balances production and conservation, and creates hundreds of thousands of jobs in the process.

The Administration has been pushing an energy plan that is based mainly on opening sensitive wilderness areas to oil drilling. Just as tax cuts are not a panacea for the economy, oil drilling is not the only solution to our dependence on foreign oil.

Our plan includes production -- like an incentive to build a natural gas pipeline to bring 35 trillion cubic feet of natural gas from Alaska to the lower 48 states. But production alone isn't the answer. Our plan includes provisions to improve the supply and distribution of traditional energy resources like oil and gas, improve the efficiency of America's electrical transmission system, and invest in clean coal technologies.

We're committed to developing new energy technologies that will increase energy independence, and help us tap the estimated \$1 trillion market for energy conservation and alternative energy development.

Seventh, and finally, we need to get serious about retirement security.

Social Security and Medicare may be the most successful government programs in history. Together, they have lifted millions of seniors out of poverty. They reflect our values, by guaranteeing, after a lifetime of work, a retirement with dignity. But now, the very programs that so strengthen our nation, and our economy, are in danger of being undermined themselves.

During the crippling deficits of the 80s, the government was forced to use the Social Security and Medicare surpluses to pay other bills. Fortunately, because the Baby Boomers were a long way from retirement, we had time to recover from that mistake. If we repeat that mistake with the first of the 76 million Baby Boomers just eight years from retirement, we will be creating a fiscal time bomb.

The Administration's hand-picked Social Security commission has recommended three options. Two would require drastic cuts in benefits and large infusions of cash from outside the system to keep it solvent. The third would do nothing but allow money to be siphoned away from the system.

I support private accounts to supplement -- not replace -- Social Security. But to create private accounts with revenues that drain Social Security will only hasten the day when the system becomes insolvent. We don't have to choose between private accounts and a healthy Social Security system. We need both, and we can have both. What we cannot afford is to weaken this vital program at the time when America needs it most.

Democrats and Republicans need to work together to find a better

way. And we should all be able to agree on a starting point: we need to restore the fiscal discipline and growth economy that did so much to extend the solvency of the Social Security system in the 1990s.

In the battle to defeat terrorism, President Bush has shown real bipartisan leadership, and we Democrats have embraced him and his efforts. The President came to Congress, told us what he needed and why, and we gave it to him.

We immediately passed a measure authorizing the use of force against Al Qaeda and other members of the global terrorist network.

We passed the USA-PATRIOT Act, giving the federal government powerful new weapons to prevent terrorism and prosecute terrorists.

We passed an emergency spending bill to help communities devastated on September 11 begin to rebuild, and to give the Pentagon the initial installment it would need to fight the war on terrorism.

We passed an airline security bill.

I believe, in this new year, we can summon that same spirit when it comes to our economy.

By returning to fiscal discipline and putting partisanship aside for the good of our nation, we can craft a plan that leads us back to fiscal integrity and that promotes economic growth and opportunity for all Americans. What this moment calls for is experience, not ideology -- cooperation, not conflict.

America faces new challenges in the new economy, there is no question about that. But if there is one thing America has learned about itself in the last four months, it is that, united, there is nothing we cannot do. And when it comes to helping one another, there is nothing we will not do.

With that understanding as our guide, and that spirit as our inspiration, I look forward to beginning our work anew.