JOINT ECONOMIC COMMITTEE UNITED STATES CONGRESS

SENATOR ROBERT P. CASEY, JR., CHAIRMAN

"Fiscal Cliff: How to Protect the Middle Class, Sustain Long-Term Economic Growth, and Reduce the Federal Deficit"
Joint Economic Committee Hearing

Opening Statement of Senator Bob Casey, Chairman of the Joint Economic Committee

December 6, 2012

As we confront the "fiscal cliff," we must ask a basic question: what will the impact be on middle-income families?

There is broad agreement that going over the fiscal cliff would jeopardize the economic recovery – increasing taxes on families, halting employment growth, driving unemployment up, and triggering deep cuts to programs that families count on.

The job before Congress is to reach an agreement that builds on the economic progress we are making and puts us on a path to fiscal sustainability. We need to cut more spending and generate more revenue. And we need to do it in a smart way that keeps our economy growing.

Earlier this year, Congress extended the payroll tax cut through 2012. The two-percentage-point payroll tax cut has played an important role helping to sustain the recovery – boosting economic growth by an estimated one-half of a percentage point in 2012 and saving or creating 400,000 jobs. We should continue the payroll tax cut through 2013 – and

yesterday, I introduced legislation that would keep the employee payroll tax at 4.2 percent next year.

To keep the economy growing, and there is good evidence of that in the past couple of months. From August through October, 511,000 jobs were added. To keep that momentum going, we should also provide tax credits to small businesses that add jobs or increase wages. And my legislation includes incentives for small businesses to grow.

I'm confident that Congress will again be successful in reaching a compromise in the days ahead and I look forward to hearing today from our experts on how to reduce the deficit while protecting middle-income families. As we enter the holiday season, Americans should not have to face uncertainty about their taxes. There is no reason middle-income families should go into the holidays without knowing whether their taxes will go up next year.

Last year, Democrats and Republicans worked together to cut nearly a trillion dollars of spending. Now, we need to continue that bipartisan work to cut more spending and to bring in additional revenues. If Congress fails to reach agreement, under the Budget Control Act of 2011, $1.2 trillion in automatic spending cuts will take place between 2013 and 2021.

Republicans and Democrats agree that an indiscriminate, across-the-board cut is <u>not</u> the right way to go. If we go over the cliff, triggering the automatic spending cuts and tax increases, GDP will fall by 0.5 percent in 2013, according to CBO. In other words, we would return to recession, reversing the hard-fought gains of the past few years. We cannot afford to go backwards.

Instead, we need a balanced and bipartisan approach – one that balances short- and long-term needs, distinguishes between core investments that

must be preserved and spending that we can live without, and utilizes both spending cuts and revenue increases.

The first order of business should be to protect middle-income families from a tax increase. CBO estimates that simply extending the middle-income tax cuts would boost GDP by 1.3 percent and create 1.6 million jobs. And, importantly, it would resolve much of the economic uncertainty facing families.

There is broad recognition that the wealthiest among us can help reduce debt by paying more. It's encouraging to see Republican Members of the House and Senate speak out recently on the need for a balanced approach that includes raising tax rates on the wealthiest individuals – and to moving right away to ensure that 98 percent of families don't face a tax increase.

We need to look at history when it comes to the impact of raising individual rates at the highest income levels. As we saw in the 1990s and 2000s, there is no relationship between lower marginal tax rates for the wealthiest individuals and faster economic growth.

During the Clinton Administration, to address the growing budget deficit, the top marginal tax rate was raised on the wealthiest individuals and the economy grew at the fastest rate in a generation and added more than 22 million jobs.

During the following eight years, the top marginal tax rate was lowered for the wealthiest individuals but the economy never regained the strength of the previous decade. Job growth slowed and wages stagnated, leaving middle-income families especially vulnerable when the Great Recession began at the end of 2007.

I hope today’s hearing is helpful to people in Pennsylvania and across the country who are watching, weighing in, and waiting for Congress to act.

It’s been an honor to serve as Chair of this Committee. I’ve enjoyed working with Representative Brady. I thank our witnesses for being here today and I look forward to their testimony.

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