



CONGRESS OF THE UNITED STATES
JOINT ECONOMIC COMMITTEE

Congressman Jim Saxton
Ranking Republican Member

PRESS RELEASE

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OPENING STATEMENT
OF CONGRESSMAN JIM SAXTON
Ranking Republican Member

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It is a pleasure to join in welcoming the panel of witnesses before us today. We are all concerned about the increases in the cost of living that threaten to erode American living standards.

As I talk to my constituents in New Jersey, the number one concern on their minds is the high cost of oil and gasoline. This year, the oil price has risen about 40 percent so far, with further price increases a distinct possibility. These higher energy costs leave families with less money to cover other expenses, such as food. Of course, rising food prices also reflect higher costs for fertilizer, transportation, packaging, and the impact of our ethanol tariff, among other things. As a first step we should repeal the ethanol tariff, and also seek to produce more energy here in the United States.

With gasoline and food prices surging, it is no wonder that incomes and wages adjusted for the cost of living are stagnating. Unfortunately, Congress has done little except pass more farm subsidies that increase food prices, and ignore the need to produce more domestic energy. Many American families are experiencing economic stress due to high energy and food prices, but Congress is not acting to address their concerns.

There are a number of different measures of household income, and different ways to interpret them. The nonpartisan Congressional Budget Office (CBO) publishes a comprehensive measure of household income trends as well as taxes. I recently asked CBO to supplement these data by providing a measure of real median after-tax household income. The most recent year for which these CBO data are available is 2005. This measure shows a gain of 5.3 percent since 2000 and 26.8 percent since 1980. The 2005 level of \$55,900 includes various benefits as well as the effect of tax changes.

The moderate increase since 2000 does not mean that many families are not experiencing hardship, but it does put some of the other data into perspective. It is also important to recall that there is quite a lot of income mobility in the economy. A recent Treasury study on income mobility found that the median income of all taxpayers increased by 24 percent between 1996 and 2005, after adjustment for inflation.

Other measures of income show less positive results. The reference period chosen can also be important. For example, Census Bureau data can be used to suggest that median income began to stagnate between 2000 and 2006. However, the stagnation in this measure actually started in the 1999-2000 period. In other words, the trend started in the last year of the Clinton Administration, not the first year of the Bush Administration. Neither administration had much to do with causing it, but those unaware of the facts might think the trend was triggered by the current Administration's economic policies.

Another issue that often arises is the increase in income inequality, with suggestions this has worsened significantly in recent years. However, the CBO data show that inequality rose most rapidly in the 1990s. For example, between 1992 and 2000, the income share of the top 1 percent surged from 12.3 to 17.8 percent, a startling increase of 5.5 percentage points. Since 2000, this income share has edged up by only three-tenths of a percentage point. In summary, the increase in inequality during the 1990s was much, much greater than anything since 2000.

The ongoing decline in housing prices is something many American families are right to be concerned about. Government policies promoting homeownership may have been useful up to a point, but they contributed to a giant housing bubble that has now burst, causing widespread problems. For example, the regulations finalized in 2000 by HUD encouraging Fannie Mae and Freddie Mac to finance more subprime mortgages is only one part of a much larger policy

failure. Both institutions are too highly leveraged but have manipulated the political system to the point that an expensive taxpayer bailout unfortunately may become the only realistic option.

In closing, American families face a number of challenges. Unfortunately, Congress has failed to help address them. The Congress has acted to support high food prices and not acted to reduce high oil prices. Congress has coddled Fannie Mae and Freddie Mac, institutions that contributed to creating the housing bubble and now threaten to cost taxpaying families many billions of dollars in bailouts. The economic problems now confronting the country have their origins in mistakes made by both public officials as well as private parties, so there is plenty of blame to go around. The truth is that government policy has contributed to the challenges currently faced by American families, and ill-considered policies are capable of doing even greater damage.

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