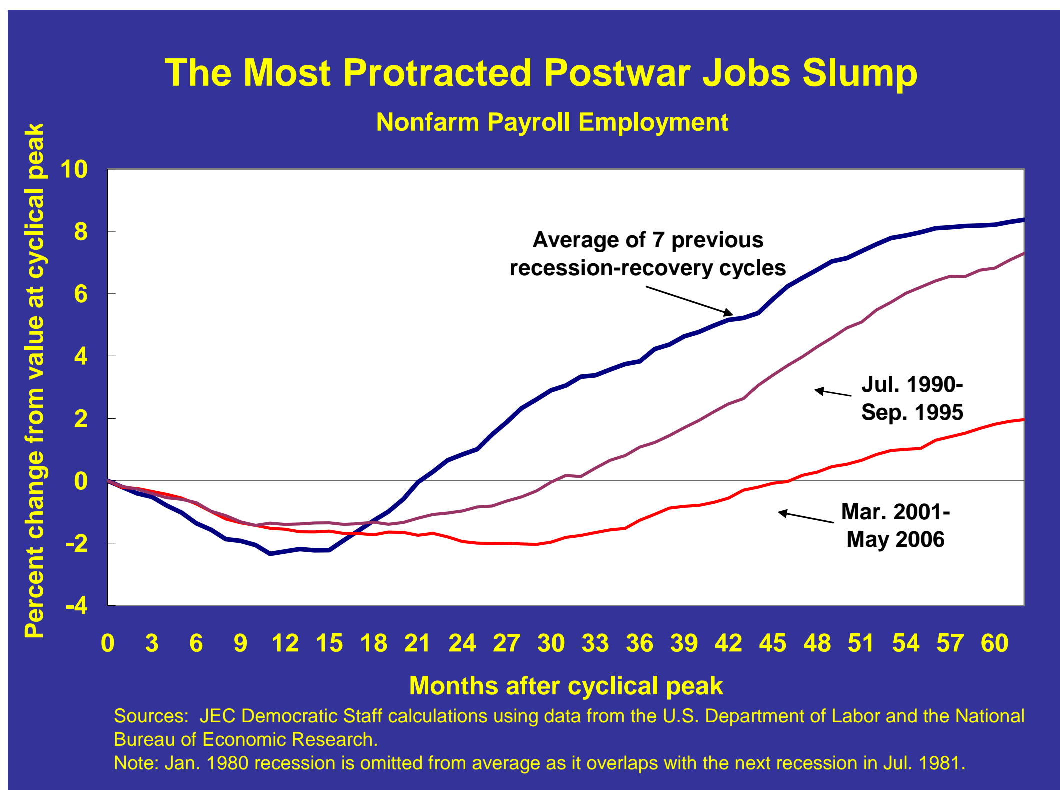
**SEN. JACK REED'S FLOOR STATEMENT
ON THE PAULSON NOMINATION
June 28, 2006**

Mr. REED. Mr. President, as we consider the nomination of Henry Paulson to be Secretary of the Treasury, I think it is important to bring a reality check to some of the claims about the current state of the economy--those claims made by the administration.

My colleague, Senator *Bennett*, pointed out that yesterday we had a hearing in the Joint Economic Committee, and appearing as a witness was Edward Lazear, chairman of the Council of Economic Advisers. We had also two outside experts who were economists testifying on the state of the economy. Many of the Bush supporters are claiming that the economy is strong and everyone is benefiting, but I doubt that many working Americans would see it as strong as they do and see it as benefiting them as much as it is claimed by the administration.

It is true that the economy is experiencing a business cycle recovery after the 2001 recession and after going through the most prolonged job slump since the 1930s. The President and his supporters point out that the economy has done better since 2003 than it did in 2001 and 2002, but they don't talk about how this recovery has not been particularly strong by the standards of previous recoveries.



This first chart shows the percentage change in payroll employment. The curve here is the average of seven previous recession recovery cycles. If you look back, historically, it

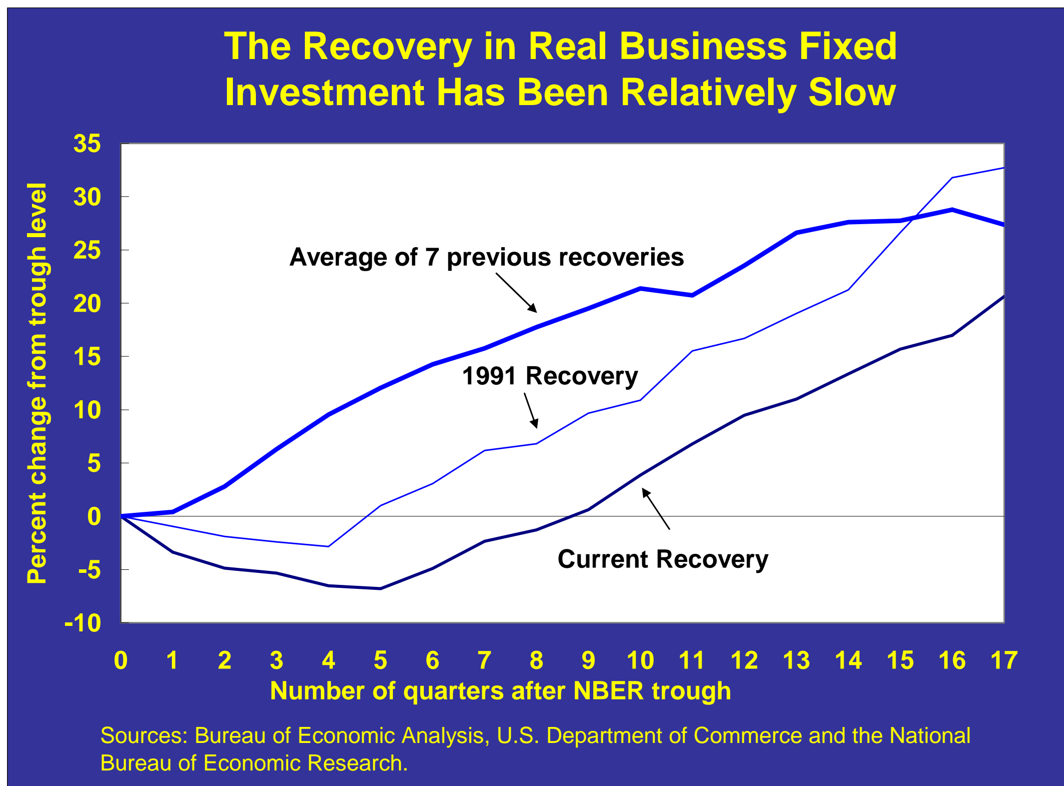
is a much more robust increase over time than this lower line, which is the March 2001 to May 2006 statistics, the recovery in the last several years. In fact, this recovery is much less than the recovery was after the 1990 recession.

That recovery was called the ``jobless recovery'' because job generation was so slow.

So what you are seeing is that job losses continued for much longer in this period of time, 2001 to 2006, than had been typical. This recovery has been much weaker than those in the past. At this point in the recovery, from the 1990 to 1991 recession, the economy had created 5 million more jobs.

That is this delta right here--5 million more jobs than have been created in this recovery. So the difference between job generation at the same point in March 2001 to 2006, and comparing it to the 1990s, is plus 5 million jobs.

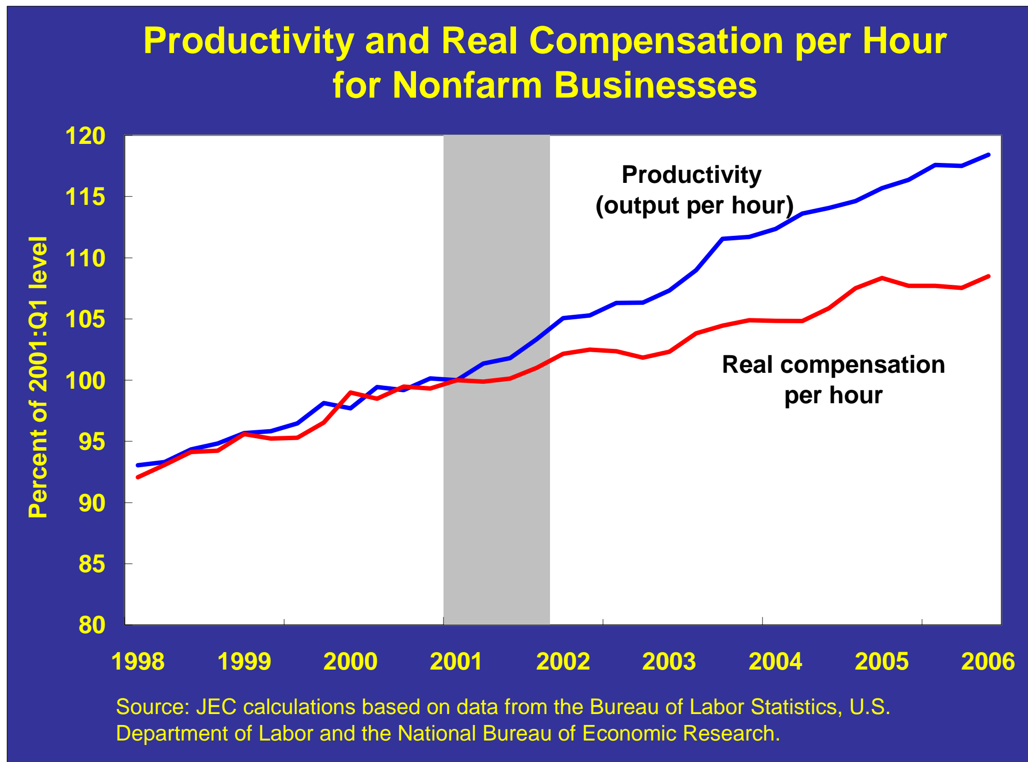
This situation is similar with respect to business investment. It took much longer for the recovery to start with respect to business investment, and the level of investment lagged behind what has been typical in past recoveries. Each year of depressed investment means less capacity to produce goods and services in the future.



Defenders of the President's economic record cannot deny that workers' wages have not been keeping up with inflation. Part of that is a result of many factors but, one, looking back at the investment, has been a relatively small recovery in terms of business investment. Here is the average of seven previous recoveries and here is the 1991

recovery in business investment and here is the current recovery. It is not as robust as it has been in previous recoveries.

As I suggested a moment ago, there is another very palpable impact of this bad economic news, and that is that wages have not been keeping up with inflation. This will be, no doubt, no surprise to working families as they work to get their paychecks each week. Some have suggested that this is a result of the fact that wages are held down but benefits are growing, and that compensation is growing at historic rates. This is not the case.



This is a chart that shows productivity, the output per hour, and real compensation per hour. What you generally see is that productivity increases will be closely tracking compensation increases except over the last several years where productivity is going up at a significant pace, but real compensation, wages plus benefits, is lagging far behind. This is what the average American is confronting today when they are looking at increased gasoline prices, soaring health care prices, and they are not seeing either in their paycheck or, in many cases, even in their benefit packages the same kinds of increases that are so necessary to keep up with the increase in inflation. Growth in compensation has lagged behind. Wages have grown more slowly than total compensation, but that is not because workers are negotiating better deals from their employers, it is because employers are facing higher costs for health insurance and are squeezing workers' wages as a result.

Increased health care prices, particularly in the area of small business, is causing many businesses to forego increases they would like to give to workers, in terms of wages, just

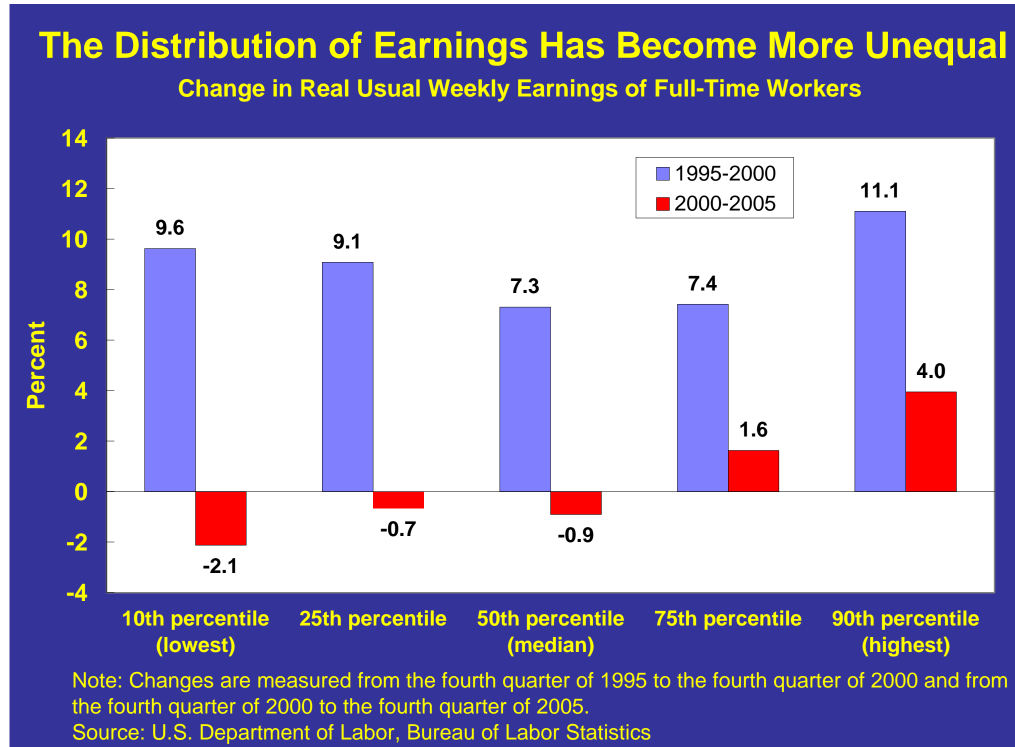
to keep up with increased health care costs. This doesn't mean a better health care package for workers, and in some cases workers are being dropped, unfortunately, from health care protection because of the expense.

What we are seeing is that compensation is not keeping up with productivity and, typically, compensation does keep up with productivity. There is another issue, too, with respect to the situation for many American workers, and that is the fact that pension arrears have to be made up. Many companies now are putting money into pensions just to make them actuarially sound, where in the past they might have devoted that to wages. By and large, the situation with respect to working men and women is that we are not seeing the robust increases in wages or compensation that are important.

These points were made by one of the witnesses yesterday at the JEC hearing, chief economist of the Bank of America, Dr. Mickey Levy, who testified that:

Wage and compensation increases have been somewhat disappointing. Real wages have been suppressed by higher energy costs and have not kept pace with labor productivity gains. .....Wages may be constrained by higher employer costs for workers' health care, along with the heightened international competition related to low cost production overseas. .....

Wage and compensation increases have indeed been disappointing, especially for the majority of workers who are not getting them. Gains in average earnings or income do not tell the real story when they hide growing inequality. When you look at one level, you see increases, but when you look at how the increases are distributed across the working population, it is another story altogether.



The red bars on this chart show that workers in the middle and bottom have experienced a decline in real earnings, while those at the top have experienced gains. This is in sharp contrast to the experience of the time from 1995 to 2000. Here in blue, in the data for gains in terms of earnings, broken down by the lowest 10th percentile, 25th, median, 75th, and 90th, at the upper level in the 1990s you saw increases, but they were almost comparable at the very lowest level of income. You saw the proverbial picket fence, where there were positive gains at every percentile. What we are seeing today is quite the reverse of that--losses in real terms of earnings at the lowest levels through the middle levels, and only at the upper income levels are you seeing real gains in earnings.

So the distribution of the economic progress that is being made over the last several years is not being shared fairly. Those at the upper income levels are seeing gains but, frankly, not the same robust gains of the nineties. At the bottom-income and middle-income level, there is a loss in real earnings.

That is not an example of an economy that is working for all Americans. That is an economy that is working for the very affluent Americans. The answer of the Bush administration to these economic trends is basically to ignore them, try to gloss over them or redefine them or explain them away. They proposed tax cuts, which will do very little to help this distribution of earnings. In fact, what it does, essentially, is protect more of the earnings at the upper income levels. If we continue along the present course, we will be undermining the economy's long-run capacity for growth and undermining future living standards.

Another aspect here, too, that is not dwelt upon by the administration is the fact that we are virtually zero in national savings. Without national savings, there is not the pool of investment capital necessary to provide for the new technology, new capital of the future. We are borrowing huge amounts of money overseas to fund our deficit. This is investments made in our country. But in terms of national savings of this country, it is close to zero. In some cases, it is negative.

These are the real problems that confront this country. These are the real questions that Mr. Paulson has to address. How do we create an economy that performs as well as it did in the 1990s, where earnings gains are shared virtually equally across the spectrum of income, where low-income Americans don't see a loss of earnings but actually a gain? How do we ensure that wages and compensation keep up with productivity gains? How do we ensure essentially and fundamentally that the working families in this country cannot only get by but get ahead? That is the question that Mr. Paulson has to answer as Secretary of the Treasury.

I think it begins with looking hard at the deficit and the policies of the administration with respect to taxes. I don't subscribe to the theory that our deficit is caused by runaway entitlement programs. We have an issue with entitlement programs, but we also have an issue with tax programs that take away revenue and are targeted to the wealthiest Americans. We have problems with expenditures that we cannot avoid with respect to supporting our forces in the field. We cannot stop providing equipment and materiel for our forces fighting the wars today, and we have to take care of them in the future.

But there are significant issues with which we have to deal. I hope Mr. Paulson will be a strong voice in this administration to look at the facts and propose realistic solutions that benefit not just the few who are wealthy but the vast majority of Americans.

Mr. President, I yield the floor.