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## The Case for Additional Fiscal Stimulus

This week the country has been jolted by shifts and failures at major financial institutions, further roiling the U.S. economy. In light of these financial shake-ups and existing weakness in the U.S. economy, Congress is considering whether to pass further economic stimulus. Last week, the House Budget Committee held a hearing where prominent economists testified about the state of the economy and discussed the case for another round of economic stimulus. Below are highlights of the testimony of Dr. Lawrence Summers, former Treasury Secretary and currently of Harvard University, and Dr. Allen Sinai of Decision Economics, Inc.

### On the State of the Economy Last Week:

Summers: “[T]he balance of risks in the American economy is now towards contraction and a vicious cycle in which declining economic performance exacerbates financial strains which feed back to hurt the economy . . . .”

Sinai: “I think [the economy] is in recession and will be declared to be that way. And it feels like a recession for most Americans. It does appear to be getting worse. It does appear to be spreading.”

### On the Helpful Effect of the Previous Stimulus:

Summers: “Given all that has happened in the housing and financial sector, many observers have been surprised that overall economic performance has not been worse. This is in significant part a result of the stimulus to the economy provided by legislation last winter. Without the stimulus which is wearing out now, our economic situation would likely be even worse.”

Sinai: “Temporary tax rebates helped raise consumption [in the most recent quarter], raising real GDP but probably only temporarily.”

### On the Case for Additional Stimulus:

Summers: “If new policy action is going to support the economy by raising the demand for goods and services, it likely will have to come on the fiscal side. . . There is a strong case for the prompt enactment of further timely, targeted, and temporary fiscal stimulus.”

Sinai: “One possible approach is to design short-run stimulus in the context of longer-run objectives – that is, measures or stimulus now as a step or downpayment on longer-run policies to achieve long-run objectives.”

### **On Possible Components of a Stimulus Package:**

Summers: “Support for low-income families and for those who have been laid off is much more likely to be spent rapidly than support diffused more widely throughout the economy.”

“Possible vehicles here include food stamps and extensions of unemployment insurance. . . .”

“There is a compelling case for significant new commitment to infrastructure spending . . . Properly designed infrastructure projects have the virtue of being helpful as short run stimulus, especially for the employment of the workers most hard hit by the housing decline, while at the same time augmenting the economy’s productive potential in the long run.”

“State and local governments are facing grave budget pressures resulting in forced cutbacks that in many cases compromise either very vulnerable populations, or necessary long term investments . . . there is a strong case that properly targeted assistance perhaps through temporary changes in Medicaid reimbursement rules could provide valuable stimulus to the economy while at the same time avoiding dangerous cutbacks.”