March 15, 2011

Statement of Representative Kevin Brady

For the past two years the American people have been told the only way to economic recovery was more federal spending that drove up federal debt. The White House and Washington Democrats continue to cling to this failed economic model, refusing to listen to the voices of respected economists in America.

The job gap between their promises and the results is significant and disappointing. After throwing nearly $5 trillion in fiscal and monetary stimulus at the economy, there are two million fewer jobs today than when the stimulus began. The White House promised our unemployment rate would be down to 6.9% by now. As for total jobs in America today they fell short of their promises by 7 million.

The “government spending is the answer” crowd had their chance to jumpstart the economy. They failed. It’s time for a proven approach.

Republicans in Congress are determined to remove barriers to new jobs by tackling America’s dangerous budget deficits and removing the resulting uncertainty that deters businesses from hiring new workers.

Private Business Investment: Key to Private Sector Job Growth

As this chart shows, private business investment, not the government, is the engine of job creation in America. Comparing federal spending and private sector job growth over the past forty years shows little correlation between the two. Just the opposite - as federal spending grew jobs along Main Street shrank.

Since 1971 jobs in the private sector increased when private business investment grew – when companies bought new buildings, equipment and software. There is no substitute for private business investment in job creation – not federal spending, not rebates, not “shovel-ready” projects.

New JEC Republican Staff Commentary

A new report “***Spend Less, Owe Less, Grow the Economy”*** unveiled today surveys economic studies over the past four decades examining countries with developed economies like ours. It provides clear and convincing evidence that countries that reduce their government debt through spending cuts boost economic growth and job creation in the short-term.

Respected economists found 21 instances between 1970 and 2007 where ten of our U.S. competitors successfully reduced their debt-to-GDP ratio by 4.5 percentage points or more based predominantly or entirely on spending cuts.

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For example, neighboring Canada shrank total government spending by 12.8 percentage points of GDP between 1994 and 2006 and boosted its economic growth from under one percent to a robust 3.4% average over the next twelve years. Sweden's economy was shrinking in the early 1990's. After reducing Swedish government spending by 11.4 percentage points of GDP from 1994 to 2000, Sweden's negative growth economy revived – to an average 3.4% annually. New Zealand did the same.

They are not alone. Economists found 26 episodes in nine developed economies where reducing debt through spending cuts provided a large boost to economic growth in the first three years after their fiscal consolidation began.

Perhaps the most important finding is this: While most economists agree that reducing federal spending increases economic growth in the long term, this study found that reducing federal spending through spending cuts boosts economic growth and job creation in the short term as well.

Pro-Growth Factors

According to the economic studies growth occurs for two reasons:

(1) Businesses no longer expect the government to levy large tax increases in the future to pay for excessive spending – so businesses step up their investment in buildings, equipment, and software. And business investment, as we've shown, equals jobs. When businesses invest more, the unemployment rate goes down.

(2) No longer facing higher taxes, households have higher expectations for permanent disposable income and become more confident to make major purchases for homes and autos.

The absence of tax increases proved more important for these growth effects than for achieving budget deficit reduction.

To maximize short-term growth and job creation, the report found that spending reductions must be "large, credible and difficult to reverse once made." The savings that produced the greatest economic growth results include: rightsizing the government workforce and its compensation, eliminating duplicative agencies and programs, eliminating transfer payments (subsidies) to businesses, and reforming and reducing transfer payments to individuals.

In the area of entitlements, the study found evidence of strong economic growth effects from reforming government pension and health care to make them "sustainable and solvent" even when the reforms are phased in slowly and exempt current beneficiaries from change.

Conclusion: Delaying Spending Cuts Risky to U.S. Economy

President Obama and congressional Democrats have emphasized the risk of reducing now America's deficits and debt. But they ignore the risk of delay.

As this study shows, ample real-life data prove there are significant economic growth and job creation benefits that accrue from reducing spending and reforming entitlement programs to restore their sustainability for future generations.

For America's economic future it's time for a new path forward. To grow our economy it's time for Washington to spend less and owe less as a nation.