CONGRESS OF THE UNITED STATES
JOINT ECONOMIC COMMITTEE
CONGRESSMAN KEVIN BRADY
RANKING REPUBLICAN HOUSE MEMBER
NEWS RELEASE

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STATEMENT OF CONGRESSMAN KEVIN BRADY

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The Economic Outlook

It is a pleasure to join in welcoming Chairwoman Romer before the Joint Economic Committee this morning.

The bursting of the housing and credit bubbles has wrecked much of the financial sector, devastated the savings and investments of many American families, and left the economy mired in a deep recession with rising unemployment. While there is plenty of blame to go around, government policy played a key role in the crisis by promoting weaker lending standards, excessive mortgage borrowing, and keeping interest rates artificially low for too long.

The Administration's confidence in its policy solutions to the crisis are reflected in the economic assumptions that form a key component of the President's budget submission. The Administration projects that real GDP will decline 1.2 percent in 2009, compared to the 2.6 percent decline forecast by the Blue Chip Consensus. The Administration assumes that the unemployment rate will be 8.1 percent in 2009, lower than the 8.5 percent rate already reached last month. The Administration's economic assumptions are unrealistic, and have reduced the projected deficits and debt in its budget submission.

The Economist called the assumptions in the Administration's budget "deeply flawed" in an article entitled, "Wishful, and dangerous, thinking." Their effect is to understate the true cost of the Administration's expansive new spending proposals. The Congress passed the President's budget yesterday, but resorted to accounting gimmicks instead of the Administration's economic assumptions to keep the costs down. As the *Washington Post* observed of this approach, "Congress deals a blow to 'honest budgeting.'" The end result is the same dangerous level of excessive deficit spending and debt as the Administration proposed.

One of the accounting tricks in the budget resolution is to ignore the true costs of the financial crisis. According to the IMF, U.S. losses on toxic assets are now estimated at $2.7 trillion. There is a broad consensus among economists that an effective bank clean-up plan is necessary for a sustained economic recovery. The Treasury has proposed a financial rescue plan, but it has serious weaknesses.

The public-private investment funds proposed to purchase toxic loans would be structured so that private investors contributing about 7 percent of the total investment would receive half of the profits, but 93 percent of the losses would fall on the taxpayers. Nobel Laureate Joseph Stiglitz has called the proposal, "robbery of the taxpayers."

Even more disturbing was the testimony last week of Special Inspector General Neil Barofsky before us on the problems with the Treasury's proposal. According to his quarterly report, "Many aspects of PPIP could make it inherently vulnerable to fraud, waste, and abuse." The vulnerabilities identified in his report include the huge size of the program along with conflicts of interest, collusion, and money laundering.

Also troubling was Mr. Barofsky's revelation that the Treasury Department has indicated that it would not adopt his report's recommendations that "all TARP recipients account for the use of TARP funds; set up internal controls to comply with such accounting;" and certify compliance. Why won't the Administration accept basic safeguards for the trillions of dollars of taxpayer money?

Mr. Barofsky's report estimated that up to $3 trillion of taxpayer money is now at risk in 12 different TARP programs. These programs include wide-ranging government involvement in banking, insurance, automotive, housing and other industries. There are many dangerous aspects of this level of government intervention, but the least we can do is protect the taxpayers from fraud. Furthermore, at the earliest feasible time, the firms owned or controlled by the government should be privatized.

In conclusion, the Administration should immediately adopt the safeguards recommended by Mr. Barofsky. The Administration should also develop a plan to sharply reduce the government's involvement in the economy to normal levels once the economy recovers.

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