



CONGRESS OF THE UNITED STATES
JOINT ECONOMIC COMMITTEE

Congressman Kevin Brady
Ranking Republican House Member

PRESS RELEASE

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**STATEMENT OF
CONGRESSMAN KEVIN BRADY
RANKING REPUBLICAN
HOUSE MEMBER**

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Banking Sector Cleanup Must Be Top Priority

I'm pleased to welcome the panel of witnesses before us today. TARP certainly raises a number of very troubling issues, but the central one is why we still do not have a credible, effective, and transparent financial rescue plan in place.

Economists and financial experts agree that nothing else we do will matter much until the issue of how to dispose of toxic bank assets is resolved. The Treasury proposal unveiled last February 10th has not been well received because it did not clearly address this issue. *The Economist* magazine, for example, characterized it as "timid, incomplete, and short on detail."

Over the last several weeks the financial press has daily noted how the lack of specifics undermines confidence and contributes to more uncertainty and financial market instability. As observed by *Business Week*, following the announcement of the Treasury plan, "the stock market [was] down on sketchy details." Last week the *Financial Times* noted that since the Treasury plan was unveiled, the S&P had declined 20 percent.

Despite the fact that a timely economic recovery is entirely dependent on an effective and credible plan for dealing with banks' toxic assets, the administration has failed to provide one. The lack of a clear policy framework raises fears about undue political influence and meddling and is deterring new private investment in banks. Financial decisions regarding bank lending, investment, and capital structure should not be politicized. Policymakers do have an important role to play in setting appropriate ground rules, but this should not include micromanaging the banks.

There is much to criticize in the TARP as well as other financial bailouts. But the key question facing the country is government policy regarding the toxic assets of the banking system. The administration seems to be focused on other priorities instead of the critical and pressing need for a clear resolution of the banking crisis. While the administration devotes its attention to pushing its budget with huge increases in deficit spending and federal debt, the financial markets and the economy sink into greater distress. However, a financial recovery plan may cost the Treasury up to a trillion dollars more. This means that Congress should not enact costly new deficit spending measures that the country cannot afford.

The misplaced priorities in the budget are one aspect of this problem, while the optimistic economic assumptions underlying the budget policies are another. Last week Secretary Geithner responded to my questions about the latter by assuring me that the economic assumptions were realistic, but they are not. For example, the new Blue Chip Consensus forecasts a 2009 GDP decline of 2.6 percent, relative to the 1.2 percent decline in the President's budget. The unemployment rate has already reached the level projected by the administration for the entire year. The unrealistic assumptions in the budget mean that deficit spending will be closer to \$2 trillion in 2009. No wonder *The Economist* called the assumptions in the administration's budget "deeply flawed" in an article entitled, "Wishful, and dangerous, thinking." The Congress should not carelessly enact policies based on such an unsound foundation.

The administration needs to focus on the resolution of the banking crisis as the best way to reestablish a reasonable prospect for economic growth. This is the key issue in economic policy right now. The longer the administration fiddles with half-measures, the longer the economy will burn.

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