



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**

September Employment Situation

I am pleased to join in welcoming Commissioner Hall before the Committee this morning.

The loss of 263,000 payroll jobs and the increase in the unemployment rate to 9.8 percent is bad news for American workers and their families. Unemployment is a severe hardship. Even if the recession is near its trough, the high unemployment rate is likely to persist for many months, if not years. A jobless recovery is not a real recovery for American workers and their families.

Last January top Obama Administration economists predicted that if the Congress were to pass the stimulus bill, the unemployment rate would not exceed 8.0 percent. Congress did enact the Obama bill, but unfortunately as we see once again the stimulus plan did not perform as the Administration had predicted.

Nevertheless, there are some encouraging signs that the economic contraction is decelerating. Financial market conditions are improving, stock prices are up, and job losses are slowing. However, personal consumption remains anemic, and business and residential investment continue to fall. These factors contribute to a very weak labor market.

I am hopeful that the current recession may have run its course. Given the normal lag time between monetary actions and the appearance of their effects in the rest of the economy, the Federal Reserve's injection of \$1.3 trillion into financial markets between September and December of last year should boost real GDP growth during second half of this year.

However, liquidity injections, or fiscal stimulus for that matter, cannot turn a recovery into a long and strong expansion. As the Chief Executive and Co-Chief Investment Officer of Pimco Mohamed El-Erian noted, temporary government interventions are unsustainable "sugar highs." For the U.S. economy to enjoy a sustained expansion instead of slipping back into a "w-shaped" recession, the private sector must once again become the driver of economic growth.

However, the balance sheets of U.S. families remain damaged from the collapse of housing prices and the excessive debts accumulated during the bubble years. The growth of personal consumption is likely to remain tepid as families increase their saving rate to repair their balance sheets. Although housing prices may be stabilizing, the large inventory of foreclosed homes is likely to restrain housing investment for some time. Therefore, a vigorous and sustained expansion will depend upon a major turnaround in both business investment and net exports.

With regard to business investment and net exports, the economic policies of the Obama Administration and the priorities of congressional Democrats are quite troubling. Business people make investment decisions based on their expectations of risk and return. In turn, government policies affect these perceptions.

Unfortunately for the American people, the Obama Administration and congressional Democrats have simultaneously decreased the expected return and increased risk associated with new business investment through their actions and inactions. As a result, many firms are delaying investment decisions. Since new business investment propels job creation, first in manufacturing the equipment, designing the software, and building the structures and then in hiring new employees to operate the equipment and facilities that business investment created, these delays add to unemployment.

Higher income tax rates and higher taxes on capital gains and dividends will begin in 2011. Congress is blocking extensions of the research and development tax credit and the homebuyer's tax credit, as well as an increase in the net operating loss carry-back time from two to five years. These tax policies slash expected returns, causing firms to forgo job-creating investments. For example, one major corporation, which spends close to \$10 billion dollars per year on R&D to pursue the cutting edge technology, may lay-off some of its researchers if Congress does not renew the R&D tax credit.

Confusion about "cap and tax" and healthcare legislation adds to uncertainty, further depressing business investment. Business people fear the additional energy costs associated with the "cap and tax" bill that passed the House and are unsure what the Senate may do. The multiple healthcare bills of the Democrats leave business people confused about what additional taxes firms, especially small businesses, may pay or what regulatory burdens they may bear.

The prospects for a sustained boost from net exports are also dim. The Doha Round of trade liberalization negotiations at the World Trade Organization remains stalled. Three completed free-trade agreements with Colombia, Panama, and South Korea have not been acted upon.

Moreover, President Obama has proposed a number of counterproductive tax increases on U.S. multinational corporations that create Americans jobs through foreign sales of American-made goods and services. In one U.S. multinational corporation, for example, American sales generate only 25 percent of its revenues, but nearly one-half of its jobs are located in the United States. Obama's international tax proposals are extremely naïve. They would reduce U.S. exports and jobs in export-related industries.

The U.S. economy must move from the "sugar high" of unsustainable government intervention to sound private sector-led growth. Given the ongoing weakness in personal consumption and the housing sector, business investment and net exports must lead the way if the unemployment rate is to fall substantially. Ironically, most of the policies of the Obama Administration and congressional Democrats are undermining these two private-sector drivers of job creation, perhaps condemning American workers and their families to a very weak, jobless recovery.

Dr. Hall, I look forward to your testimony.

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