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

Economic Outlook

I am pleased to join in welcoming Chairwoman Romer before the Committee this morning.

There are some encouraging signs that the recession may be nearing its trough. The commercial paper and corporate bond markets are functioning. The stock market is up. Housing prices may be stabilizing. Industrial production edged up 2.8 percent during the last three months. Job losses continue, but are slowing. And the October survey of economists in *The Wall Street Journal* forecasts that real GDP will grow at an annualized rate of 3.1 percent during the third quarter.

Even if this forecast proves correct, the U.S. economy still suffers from many fundamental problems. In September, payroll jobs fell by 263,000, while the unemployment rate rose to 9.8 percent. The same *Wall Street Journal* survey also forecasts that the unemployment rate will rise to 10.0 percent by December.

Commercial real estate prices continue to fall. Because of the collapse of the market for commercial mortgage-backed securities, many property owners cannot roll over performing commercial mortgage loans at maturity. Regional and community banks are likely to suffer large losses on their commercial mortgage loan portfolios that may impair their ability to supply credit to families and small businesses.

I am concerned that any growth in the second half of this year may prove transient, and consequently the unemployment rate may continue to increase well into 2010. Those in Washington shouldn't kid themselves: A jobless recovery is no recovery for American workers.

During the last four months of 2008, the Federal Reserve injected more than $1.3 trillion of liquidity into the U.S. economy. With the traditional lag between monetary actions and their effects becoming apparent in the real economy, this liquidity injection last fall supported real GDP in the second quarter and should boost real growth in the second half of this year.

Compared to the Federal Reserve's $1.3 trillion "adrenaline shot," President Obama's stimulus spending pales. As of this month, only $173 billion, or 22 percent of the program's total, had been spent – to the view of many, too slowly, too wastefully, and too unfocused on jobs. Like the hunter in the party who takes credit for every bird that falls, stimulus promoters should be wary of taking credit for the result of unprecedented Fed actions that are casting a far greater influence over the economy's performance.

But neither liquidity injections nor fiscal stimulus can create a sustained expansion. As the Chief Executive and Co-Chief Investment Officer of Pimco Mohamed El-Erian noted, these government interventions are unsustainable "sugar highs." If the United States is to avoid slipping back into a "w-shaped" recession, the private sector must once again become the driver of economic growth.

It is unclear how this hand-off will occur. 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 restrained. The large inventory of foreclosed homes is likely to dampen housing investment. Therefore, a sustained expansion must depend upon business investment and net exports.

Here is a major concern going forward: Entrepreneurs and business leaders make investment decisions based on their expectations of risk and return. Government policies affect these perceptions. Unfortunately, the Obama Administration and congressional Democrats have simultaneously dampened the expected return and increased the risk associated with new business investment through their actions and inaction.

Higher income tax rates and higher taxes on capital gains and dividends are set to begin in 2011. The White House and Congress are proposing job-killing energy and international tax increases that will drive investment and jobs offshore. Congress has not acted in a timely manner to extend the research and development tax credit and the homebuyer's tax credit as well as an increase in the net operating loss carry-back period from two to five years.

Uncertainty about cap-and-trade and healthcare legislation further depresses business investment. Firms fear the additional energy costs associated with what many term the "cap and tax" bill that passed the House and are unsure what the Senate may do. The various trillion-dollar healthcare bills leave firms, especially small businesses, confused and concerned about additional taxes and regulatory burdens.

As a result, many companies in my district and around the country are delaying important investment decisions – and the job creation that goes with it.

In short, the government's uncertainty and interference is quickly turning a "rescue operation" into an anchor around the private sector's neck.

With U.S. consumer spending lagging, a key opportunity to recovery lies in selling American goods and services overseas to recovering markets. Yet America is sitting on the sidelines while other nations are aggressively shaping these new markets. The Doha Round negotiations remain stalled. Congress has not acted upon three completed trade agreements with Colombia, Panama, and South Korea while competing countries reach agreements that leave American companies and farmers at a severe competitive disadvantage.

The United States is on an unsustainable fiscal course. According to the Congressional Budget Office (CBO), projected federal deficits will swell publically held federal debt from 40.8 percent of GDP at the end of the last fiscal year to 67.8 percent at the end of fiscal year 2019. And this CBO projection is <u>before</u> adding new healthcare benefits and other costly initiatives.

Moreover, the CBO projects that the growth of <u>existing</u> entitlement programs will drive federal deficits and debt even higher over the long term. Instead of resolving these imbalances and consequently protecting both beneficiaries and taxpayers, President Obama and congressional Democrats are seeking to create new entitlement programs that would further damage our fiscal position.

Finally, the United States could face the risk of a dollar crisis in the future. Recent history in Asia and Latin America warns us that currency crises occur suddenly with devastating consequences. If the fear that fiscal irresponsibility may force the Federal Reserve to monetize federal budget deficits were to cause foreign investors to shun Treasury debt, the foreign exchange value of the dollar could collapse, sending prices soaring. Fortunately, the risk of a dollar crisis is still very small. However, this risk may grow if Congress does not begin to control federal spending.

There is much to be concerned about in America's economy. Today is no time to be taking false credit for economic indicators – but rather outlining the Administration's strategy going forward to address these challenges.

Dr. Romer, I look forward to hearing your testimony.

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