Joint Economic Committee
Representative Kevin Brady • Chairman

NEWS RELEASE

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OPENING STATEMENT OF CHAIRMAN KEVIN BRADY

State of the U.S. Economy:
Why have Economic Growth and Job Creation Remained Weak?
And What Should Congress Do to Boost Them?

The *Employment Act of 1946* established the Joint Economic Committee to analyze economic issues and make policy recommendations to Congress. As the 37th Chairman of this Committee, I congratulate Senator Amy Klobuchar on becoming Vice Chair and welcome both new and returning Members to the JEC.

While the United States confronts many problems, our most vexing economic challenge is the growth gap - and how we close it? The growth gap between this economic recovery and other recoveries is significant and intensifies our federal spending and debt problems.

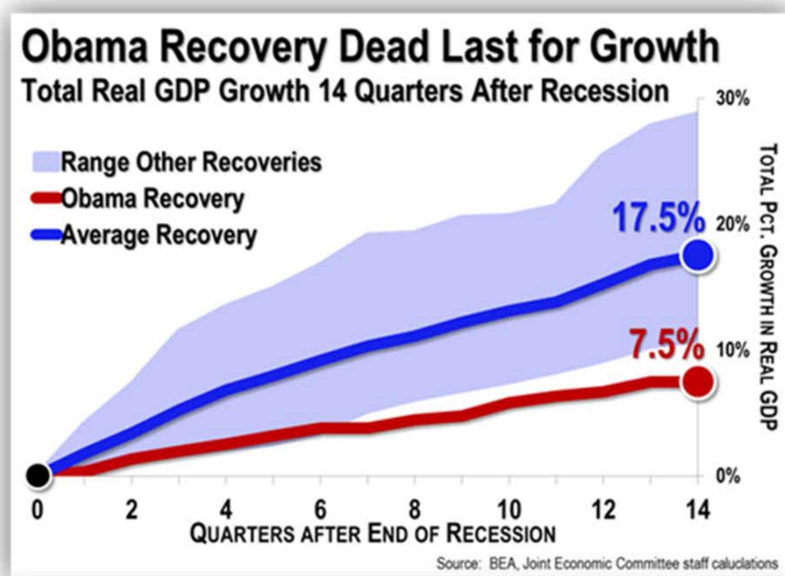
The growth gap has two interrelated aspects.

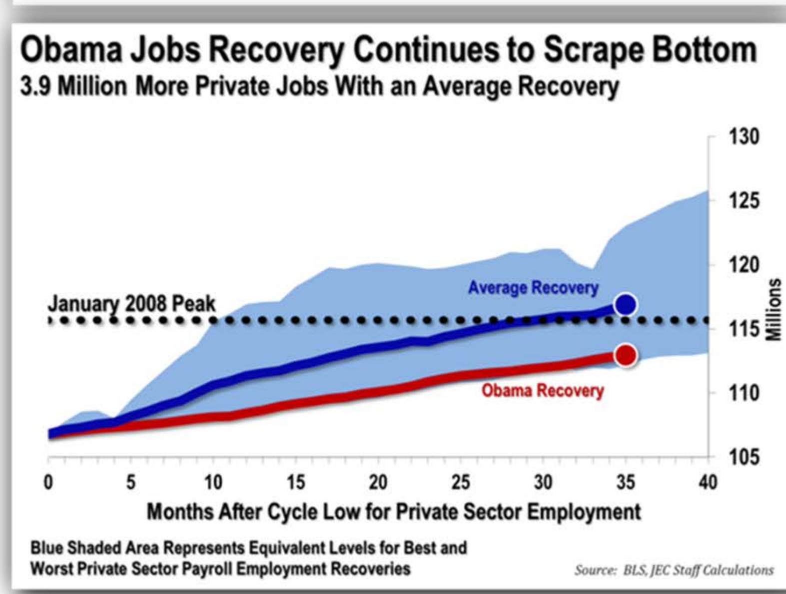
- First, by objective economic measure, the recovery that began in June 2009 remains the weakest among all recoveries after World War II.
- Second, according to many economists, our economy's potential to grow over time has slowed. If true, the average rates of growth and private job creation during this recovery of 2.1 percent and 175,000 per month, respectively, are about as good as our economy will ever perform in the future. And that is unacceptable.

Therefore, it is appropriate that the first hearing of this Committee during the 113th Congress should address this growth gap. Why have economic growth and job creation remained weak? And what should Congress do to boost them?

The anemic nature of the current recovery is indisputable.

- During the current recovery, real GDP increased by 7.5 percent in three and one-half years. In contrast, average real GDP growth during the same period in all post-war recoveries was 17.5 percent. Today's recovery is less than half as strong as the average.
- Real GDP would have to grow at an annual rate of 5.5 percent in each of the next four years merely to catch up with an average recovery by the end of the President's second term. That would be slightly higher than 5.4 percent annual rate that President Reagan achieved during the first three and a half years of his recovery.
- Private payroll employment—that is, jobs along Main Street—has increased by only 5.7 percent since its cycle low. Had this recovery been merely average, private payroll employment would have increased by 9.4 percent. The growth gap means that the United States should have 3.9 million more private jobs today that it does.





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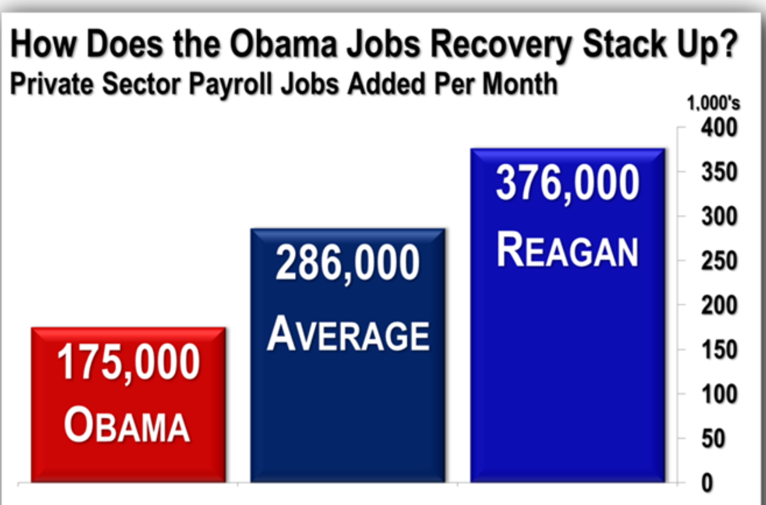
Equally troubling is mounting evidence that the annual growth rate for potential real GDP in the future has fallen dramatically. In its most recent *Budget and Economic Outlook*, the Congressional Budget Office cut its estimate of the potential real GDP growth rate to 2.3 percent, one percentage point below its average since 1950.

One percentage point may not sound like much. However, the real economy doubles in 22 years at a 3.3 percent growth rate. At 2.3 percent, it takes 31.9 years to double, almost a decade longer.

This prospect of a "new normal" for America's economy in which our future economic growth permanently slows by one-third should be a red flag for all Americans.



Source: Bureau of Labor Statistics. Jobs added per month by Average and Reagan recoveries calculated on percentage increase from cycle low points by Joint Economic Committee staff.

During this Congress, this Committee will, through hearings and research, investigate the growth gap and how to close it. No doubt some of the growth gap may be due to demographic factors that are not easily amenable to economic policy. However, even a cursory review of recent history strongly suggests that economic and fiscal policies have played the dominant role.

To understand how these policies affect performance, let us compare the generally pro-growth policies and the superior performance of the U.S. economy during the 1980s and 1990s with the generally slow growth policies and the lackluster performance during the last decade.

During the Great Moderation under both Republican and Democratic Presidents and Congresses with Republican, Democratic, and split control, the federal government generally pursued the pro-growth economic policies and achieved outstanding results:

- The size of the federal government, as measured by federal spending, gradually shrank relative to the size of the economy.
- Marginal income tax rates fell. Policymakers focused on reducing the after-tax cost of capital for new business investment, and jobs grew.
- Monetary policy became increasingly rules-based and predictable. Ignoring the employment half of its dual mandate, the Federal Reserve focused on price stability.
- The regulatory burden on businesses and households declined.
- The United States led the world in liberalizing international trade and investment.

Beginning in 2001 under both Republican and Democratic Presidents and Congresses with Republican, Democratic, and split control, the federal government reversed course—in large part due to the terrorist attacks of 9-11—and the results have been disappointing:

- The size of the federal government, as measured by federal spending, has grown substantially relative to the size of the economy, soaring to 25.2 percent of GDP in fiscal year 2009 and remaining elevated at an estimated 22.2 percent of GDP during the current fiscal year.
- Marginal income tax rates were first decreased then later increased. In recent years, policymakers have primarily focused on the "fairness" of the tax system instead of its effects on growth.
- Monetary policy has become discretionary once again. The Federal Reserve has justified its extraordinary actions based upon the employment half of its dual mandate.
- The regulatory burden on businesses and households has increased, generating uncertainty and inhibiting new business investment.
- The United States has fallen behind its major trading partners in liberalizing international trade and investment.

Today is the perfect time to focus on the growth gap and what we should do to close it. Given the historical and legal relationship between this Committee and the Council of Economic Advisers, it is appropriate that two of its most distinguished former Chairmen, Dr. Michael Boskin and Dr. Austan Goolsbee, are today's witnesses.

With that, I look forward to their testimony.

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