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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Contact: Christopher Frenze
(202) 225-3923

Unemployment Increases Well Above Administration Projections

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

The increase in the unemployment rate to a level of 9.4 percent is disturbing for several reasons. First, the higher unemployment rate reflects greater hardship for American workers and their families. Second, the higher unemployment rate, along with other economic data, reflects the continuing weakness in the economy. Third, the higher unemployment rate underscores the unrealistic nature of the Administration's economic assumptions based on the idea that the stimulus spending would cap rising unemployment.

The payroll employment decline reported today also shows that the economy continues to contract. The 345,000 drop in May payroll employment is a significant monthly job loss and is broadly based in many industries. Although the overall pace of job loss was not as terrible as in recent months, manufacturing continued to suffer large employment declines.

There is some tentative evidence suggesting that the economy may bottom out in coming months. For example, financial market conditions have improved, some measures of manufacturing activity have stabilized, and some data related to housing and construction are less negative. However, measures to prevent foreclosures are not working well, and re-default rates are very high, with more loan losses to come. Business investment has collapsed, and commercial real estate continues to be under stress. Consumer spending is weak, and exports are falling as many of our major trading partners also experience recession.

I continue to be concerned about the Administration's unrealistic economic assumptions which were the basis for the President's budget proposal. *The Economist* magazine called these economic assumptions "dangerous" because they understate the true cost of the Administration's deficit spending and debt accumulation. Unfortunately, according to CBO, Administration policies will triple the national debt to a level of $17.3 trillion by 2019. This avalanche of government deficits and debt is one reason long-term interest rates, including mortgage rates, are on the rise.

A central problem is that the Administration assumed that its stimulus spending spree would significantly improve the economy. For example, last January two top Administration economists projected that the unemployment rate would not exceed 8.0 percent in 2009 or 2010 if the stimulus was enacted. The Administration followed up by forecasting an average unemployment rate of 8.1 percent for all of 2009. However, the current level of the unemployment rate above 9 percent is enough to show that the Administration's assumptions about the positive impact of the stimulus were wrong. If the Administration's forecast were internally consistent, this would also indicate that GDP will be lower than projected.

An economic upturn should occur by next year, if only due to the huge amounts of money and credit injected into the economy by the Federal Reserve. However, the economic recovery probably will be quite weak, and not consistent with the White House's rosy scenario for 2010. What will be the sources of economic growth next year?

With many households forced to pay down debt, a surge in consumption is not likely. Excessive levels of government spending and debt are already rattling financial markets, so much more government stimulus spending is not a feasible option. U.S. exports may be constrained by weakness in other countries, and by retaliation against our trade policies. That leaves investment as a main source of growth, but how many will undertake long-term investments when facing a tidal wave of new taxes, entitlement spending, and inflation? Future economic growth will rely heavily on investment, but more taxes, government borrowing, regulation, and inflation all will hit investors very hard.

Government is not evil, and up to a point provides more benefits than costs, but beyond this point becomes counterproductive. Policymakers should understand that excessive government does have the potential to choke off healthy economic and employment growth. If the long-term rate of economic growth is reduced from 3 percent to 2 percent or below, the result will be much slower job growth, and higher levels of unemployment. Congress should wake up to the damage that it is inflicting and stop enacting legislation that only increases the burden of government on the economy.

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