CONGRESS OF THE UNITED STATES

JOINT ECONOMIC COMMITTEE

Congressman Kevin Brady
Ranking Republican House Member

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STATEMENT OF CONGRESSMAN KEVIN BRADY

January Employment Situation

I would like to join in welcoming Commissioner Hall before the Joint Economic Committee this morning. The data released today underscore the need for effective steps to get the economy back on track.

The data show that payroll employment fell by 598,000 in January. The job losses were widespread, reflecting the deepening recession and economic hardship facing many families. The unemployment rate climbed to 7.6 percent last month.

Unfortunately, the policy response to the downturn was a partisan stimulus bill passed by the House to increase federal spending, deficits, and debt by astronomical amounts. Between 2009 and 2019, the House bill would add $1.2 trillion of federal debt to the already large and growing burden of public debt on the economy. The stimulus bill would add more than $3,000 to the share of public debt of every man, woman, and child in the U.S. by 2019. We, our children, and grandchildren will be paying for this spending spree for a long time to come.

Even before the stimulus bill was considered, the Congressional Budget Office (CBO) projected that the budget deficit would balloon to a record $1.2 trillion in 2009 alone. The publicly held debt as a percent of GDP was projected to increase from 40.8 percent in 2008 to 50.5 percent in 2009, a whopping 10 percentage point increase in only one year. The stimulus bill could push this debt-to-GDP ratio to nearly 60 percent by 2011.

The real budget outlook is actually considerably worse because the CBO baseline does not include a number of items that will further enlarge the deficits. Trillions of dollars of federal bailouts also expose taxpayers. Furthermore, the looming retirement of the baby boom generation will cause entitlement spending to accelerate faster and faster in the next few years.

The U.S. fiscal outlook is already undermining financial markets. As the *Financial Times* reported Thursday, "…The U.S. Treasury opened the floodgates of government bond issuance yesterday…the announcement came amid fears about growing U.S. government deficits and sent the yield on the benchmark 10-year Treasury note rising to 2.95 percent… The rise in yields has been pushing 30-year mortgage rates higher, complicating efforts by U.S. authorities to revive the economy…."

The key question is whether huge federal spending increases will actually work to stimulate the economy. As economist John Taylor noted in a recent paper presented at the annual American Economic Association meetings, "there is little empirical evidence that government spending is a way to end a recession or accelerate a recovery." It didn't work in Japan, and there is no reason to think it will work now in the U.S. Part of the reason to doubt the effectiveness of stimulus spending is that taxpayers know that they will end up paying for the stimulus in higher future taxes and inflation, and will adjust accordingly now, undermining any stimulative effect. One study even found that "…It is thus possible for responses to expected future policies to exacerbate and prolong recessions…."

The prospect of borrowing over a trillion dollars for questionable programs thrown together with little procedural deliberation has rightly given the American people pause. Even if job creation is assumed, the cost per job has been estimated at well over $200,000, far above average taxpayer income. We do know one thing: there is an absolute certainty that the House-passed stimulus will increase deficits and debt by over $1 trillion. However, there is very little indication that it will do much to help the economy.

A much better approach would be long-term marginal tax rate reductions to improve incentives to work, save, and invest. As Christina Romer, President Obama's chair of the Council of Economic Advisers has written, "tax cuts have very large and persistent positive output effects." The Republican tax package offered in the Ways and Means Committee included a number of pro-growth tax provisions. We proposed cutting the marginal income tax rates in the bottom two brackets by five percentage points, tax deduction for small business, income tax relief for taxpayers receiving unemployment benefits, and a tax incentive for qualifying home buyers. This approach offers a much better prospect for economic growth than a tidal wave of new wasteful federal spending.

This bloated spending stimulus bill is in trouble and there is still time to consider a better course of action. Instead of burdening the economy with more deficit spending and debt, let's reduce the burden of government and improve the prospects for economic growth.

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