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JOINT ECONOMIC COMMITTEE
CONGRESSMAN KEVIN BRADY
RANKING REPUBLICAN HOUSE MEMBER
NEWS RELEASE

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STATEMENT OF CONGRESSMAN KEVIN BRADY

February Employment Situation

I am pleased once again to join in welcoming Dr. Hall before the Committee this morning.

Today's employment report is more bad news for American workers and their families. Payroll employment fell by 36,000. After excluding the hiring of 15,000 temporary Census workers, payroll employment fell by 51,000. The unemployment rate remained unchanged at 9.7 percent. And the number of discouraged workers reached a series high of 1.2 million.

Although real GDP grew at an annualized rate of 5.9 percent in the fourth quarter of 2009, 66 percent of this growth was due to a one-off restocking of inventory. Real final sales, which are a better measure of the underlying trend in real GDP than the headline number, rose by only 1.9 percent in the fourth quarter of 2009.

In line with this modest growth trend, the most recent Blue Chip consensus forecast of private economists predicts that real GDP will grow by 3.0 percent in 2010. Many economists are forecasting that the average monthly growth in payroll employment will be about 100,000 jobs this year. Unfortunately, such slow growth in payroll employment means that the unemployment rate will remain elevated. Indeed, the Blue Chip consensus forecast predicts that the unemployment rate will still be 9.7 percent in the fourth quarter of 2010.

Normally, economists would expect rapid economic growth following a severe recession. After the August 1981 to November 1982 recession, which is similar in depth and length to the recent recession, we find:

- The average annualized rate of real GDP growth was 7.2 percent in the first two full quarters of the Reagan recovery compared with 4.1 percent in the last two quarters.
- During the first eight months of the Reagan recovery, payroll employment increased by 1.7 million jobs, while since July 2009 payroll employment fell by 1.1 million jobs.

Why is this recovery so much weaker than the recovery after the August 1981 to November 1982 recession? Seeking an answer, the Republican members of this committee invited some of our country's best economists to speak at a conference on February 23, 2010. One of these economists, Nobel laureate Dr. Edward C. Prescott, who is both the W. P. Carey Professor of Economics at Arizona State University and the Senior Monetary Adviser at the Federal Reserve Bank of Minneapolis, provided the explanation.

Investment is depressed. Businesses are making fewer tangible investments in structures, equipment, and software that are captured as investment when calculating GDP. Moreover, businesses are also making fewer intangible investments in such things as research and development and employee training that are not captured as investment when calculating GDP.

From entrepreneurs in the small companies in The Woodlands, Texas, to the executives of the nation's largest corporations, businesspeople expect that the federal taxes on the profits from new investments are going up by a lot. With the expiration of the 2001 and 2003 tax cuts at the end of this year, individual income tax rates will be increased. The taxes on capital gains and dividends will rise, and the death tax will be reinstated.

And that's just the start. The United States is on an unsustainable fiscal course. Although the federal government will have serious difficulties meeting its existing obligations under Medicare and Medicaid during this decade, President Obama and congressional Democrats are determined to use reconciliation to ram through a new multi-trillion dollar health care entitlement over the clear opposition of the American people.

While there is uncertainty about which taxes will increase, any rational entrepreneur or corporate executive expects to pay more taxes to finance Obama's so-called health care reform. And looming in the background are the prospects of higher implicit taxes through "cap and trade" and the suggestion that Obama's Democrat-controlled deficit reduction commission will recommend imposing a federal value-added tax to balance the federal budget.

Given these expectations, Dr. Prescott demonstrated, businesses are holding their cash instead of making new investments. This is also what happened during a similar period of uncertainty about higher taxes and intrusive regulations under another Democratic President Franklin D. Roosevelt during the 1930s. Presidential scholar Dr. Alvin S. Felzenberg identified policy uncertainty under FDR as a major reason why the United States was the last industrial democracy to recover from the Great Depression.

It is business investment in both tangible assets and intangibles that drives job creation. Unfortunately for American workers and their families, the prospect of higher taxes is a job-killer.

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

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