Ryan Opening Statement
Economic Recovery: Options and Challenges 10/20/2008

Part I

- Thank you, Chairman Spratt. Welcome, Chairman Bernanke.

- We're all concerned about a weak economy and the impact on American families. My own hometown is suffering from the consequences of this downturn. That's why I've voted for the extension of unemployment insurance, but I also want to pursue policies to ensure sustained economic growth.

- The topic of today's hearing is "Options for Economic Recovery." The Democrats have already come out with their preferred option: a bloated $300 billion stimulus package.

- The advertised intent of this package is to "get the economy back on track." Yet, we should not be under any illusion that this stimulus package will address the *core* problems of our current financial crisis and economic weakness.

- The major problem, which Chairman Bernanke is about to describe, has been that our credit markets have virtually frozen up and nearly stopped functioning. Left unaddressed, the situation posed the very real threat of a financial meltdown followed by a deep and prolonged recession.

- The Fed has acted preemptively and promptly to address this crisis. It is taking extraordinary and unprecedented measures to inject liquidity into these frozen credit markets and preserve the integrity and functioning of our financial system.

- We in Congress have also taken action by passing bipartisan legislation designed to stabilize financial markets. We have also extended unemployment insurance in order to soften the blow for those individuals who have lost their jobs during this downturn.

- These actions, combined with weakness in our economy, obviously entail costs. The CBO has just warned us that even without a stimulus package, this year's budget deficit could reach $750 billion. Adding the Democratic stimulus package would take the budget deficit to $1 trillion. That tells me that we are simply not serious about our fiscal situation.

- A much higher level of government spending and increased deficits is going to sharply raise our debt service costs and weaken the dollar.

- Although the long-run costs of the proposed stimulus are real, the long-run benefits are highly suspect. In fact, we have seen time and time again that these temporary fiscal spending packages simply provide one or two quarters of "pop" before the economy simply reverts back to its pre-stimulus trend. That is because they do nothing to change the main factors driving our long-term growth trajectory.

- If higher government spending lead to robust economic growth, our economy would be soaring along right now instead of entering a recession.

- If Congress is going to take action, it should be through fast-acting tax policy that boosts incentive to invest and create jobs. That is the growth dynamic that leads to a bigger economic pie. Short-term actions like stimulus do not grow the economic pie, they simply *transfer* funds from one part of the economy to another.

Part II

- The Democratic $300 billion stimulus proposal raises serious concerns about how Washington will respond to the financial crisis.

- I'm afraid that this is only the beginning, and that we are going to see a lot more government intervention in the economy that will be detrimental to jobs, wages, and the financial security of the American people.

- My fear is that this financial crisis, and the policy reactions it has forced us to take, could send us down a path toward a fundamentally different economic model – one of bigger government, higher spending and taxes, and heavy-handed government controls -- rather than a reliance on private markets.

- This would be a serious mistake. When I look back at the root causes of our current financial crisis, I don't see an *indictment* of our capitalist system, but rather a *distortion* of private markets through some of the Federal Government's actions.

- First, earlier this decade the Federal Reserve set the stage for a wave of mortgage borrowing by keeping credit conditions too loose for too long. Low interest rates encouraged both homeowners and financial institutions to borrow too much and become highly leveraged, which is accentuating the pain of the massive de-leveraging we are witnessing today.

- Second, the Federal government encouraged, mandated, and subsidized both lenders and borrowers to extend and accept mortgage credit to people who simply were not in a financial position to repay these loans.

- Third, I've been warning for a decade that Fannie Mae and Freddie Mac posed a huge risk to taxpayers. During that period, Fannie and Freddie, at the urging of members of Congress and others, were creating and securitizing more risky loans. In addition, Fannie Mae and Freddie Mac became the largest holders of mortgagebacked securities. In fact, by the time the government was forced to take these companies over, their combined mortgage investment portfolios had reached $1.5 trillion, which exceeds the entire GDP of countries like Canada, Mexico, and Spain.

- Clearly, a variety of private actors were also at fault, but Fannie and Freddie's large purchases of mortgage-related securities, many of which were near-prime or subprime, put the government stamp of approval on a fundamentally flawed system – a system of cheap money, low risk, and ever-rising home prices.

- Looking ahead, we need to modernize our antiquated regulatory system, improve transparency, and make sure those that take risks are fully accountable for the consequences.

- But we should also be careful to guard against a regulatory over-reaction formulated in the heat of the current crisis that may have unintended consequences down the road.

- Also, we should not mistake the urgent action we are undertaking now in *reaction* to the crisis as a template for a viable, long-term economic model.

- Though it may be obscured by recent events, the unprecedented economic growth and prosperity we have witnessed in this country over its history has been driven by free markets – by entrepreneurship, innovation, and private risk and reward.

- Government did not create this prosperity and my concern is that we will take actions that will hurt Americans ability and opportunities to secure renewed prosperity in the future.