CONGRESS OF THE UNITED STATES

JOINT ECONOMIC COMMITTEE

Congressman Kevin Brady
Ranking Republican House Member

PRESS RELEASE

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STATEMENT OF CONGRESSMAN KEVIN BRADY RANKING REPUBLICAN HOUSE MEMBER

February Employment Situation

I would like to join in welcoming Commissioner Hall before the Committee this morning.

The data released this morning reflect a deepening recession. Payroll employment in February declined by 651,000. The unemployment rate climbed from 7.6 to 8.1 percent. Overall labor market conditions continue to deteriorate.

The economic outlook for the year is quite bleak. The bursting of the credit bubble has sharply reduced asset values, but the high debt levels associated with the boom remain, burdening the economy. Unfortunately, the administration's solution to the problems posed by this excessive debt burden is to propose an avalanche of more deficit spending and higher federal debt.

The administration's use of relatively optimistic economic assumptions make skyrocketing deficit spending appear less threatening relative to the size of the economy, but this is an illusion. The administration projects that real GDP will fall 1.2 percent in 2009 and rise 3.2 percent in 2010, compared with a Blue Chip Consensus forecast of a decline of 1.9 percent in 2009 and an increase of 2.1 percent in 2010. More realistic economic assumptions would push the administration's projected 2009 budget deficit of $1.75 trillion closer to $2 trillion. Furthermore, a recent study released by the Brookings Institution estimates that deficits will average over $1 trillion in each of the next ten years, based on what the authors consider to be *favorable* assumptions.

The administration's projections of lower future deficits after 2010 thus appear to be optimistic, especially given the ongoing push for even more spending on entitlements and various financial bailouts. As Clinton Treasury official Roger Altman wrote this week, a weaker economy than that projected by the administration "means even bigger deficits than the scary ones projected."

Ultimately, the likelihood of a timely economic recovery will depend largely on government policy regarding the toxic assets of banks. Credit is the life blood of the economy, and without functioning credit markets the economy will continue to wither. Unfortunately, the administration so far has failed to produce a transparent and effective financial rescue plan.

As the *Financial Times* noted yesterday, since the Treasury Secretary made "his terribly received speech on loans for the bank sector, the S&P has dropped 20 percent. Markets may not have expected a 'silver bullet', but did expect the new administration to have a clearly stated 'plan A'. The realization that it did not was a severe blow to confidence."

The administration needs to produce a clear and effective plan to deal with the toxic asset problem of the banks soon, if the economy is to have a reasonable prospect of a timely recovery. Furthermore, it should drop its plans to drastically increase the tax burden on the economy, including its cap and trade proposal that would be especially devastating for manufacturing workers. More taxes, deficit spending, and debt will only further burden an already weak economy.

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