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JOINT ECONOMIC COMMITTEE
CONGRESSMAN KEVIN BRADY
RANKING REPUBLICAN HOUSE MEMBER

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STATEMENT OF CONGRESSMAN KEVIN BRADY

The Road to Economic Recovery: Policies to Foster Job Creation and Continued Growth

I am pleased to join in welcoming Director Elmendorf before the Committee this afternoon.

Given the depth and length of this recession, economists would normally expect a sharp V-shaped recovery with a strong rebound in output and employment. However, this has not been the case so far.

Real GDP grew at annualized rate of 2.2 percent in the third quarter of 2009. While the real GDP growth rate accelerated to 5.7 percent in the fourth quarter, more than 57 percent of the growth in the fourth quarter was due to a one-off restocking of inventory. The fourth quarter spike reveals how deeply businesses emptied their shelves last year but gives no indication they are confident in bringing workers back or hiring new ones. Real final sales, which are a better measure of the underlying trend in real GDP than the headline number, rose by only 2.2 percent in the fourth quarter of 2009.

This is consistent with the sluggish economic growth forecasted for the next two years. The Congressional Budget Office (CBO) forecasts that real GDP will grow by 2.2 percent in 2010 and 1.9 percent in 2011. Likewise, the February Blue Chip consensus of private economists forecasts that real GDP will grow by 3.0 percent in 2010 and 3.1 percent in 2011, somewhat faster than CBO, but still slow when compared with normal growth after a severe recession.

Weak economic growth means that job creation will be anemic and the unemployment rate will remain elevated for a number of years. Indeed, the CBO forecasts that the average unemployment rate will be 10.1 percent in 2010 and 9.5 percent in 2011. Again, the February Blue Chip consensus is somewhat more optimistic than the CBO, but not much, forecasting average unemployment rates of 10.0 percent in 2010 and 9.2 percent in 2011.

While January's decline in the unemployment rate to 9.7 percent is encouraging, most of the improvement is attributable to an increase in the number part-time jobs reported by households. At the same time, payroll employment fell by another 20,000 jobs. This divergence between the household and establishment surveys is unusual. We must await future employment reports to see how this inconsistency between the two surveys is resolved.

Let's compare the recovery after the recession that began in December 2007 with the recovery after the August 1981 to November 1982 recession, which is similar in depth and length to the recent recession. The National Bureau of Economic Research has not yet determined the official bottom for the recent recession. However, industrial production hit its bottom in June 2009, and real GDP began to grow in July 2009. So, until the National Bureau of Economic Research makes its official determination, let's assume that the bottom of the recent recession occurred in June 2009.

Comparing the Reagan and Obama recoveries so far, 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 4.0 percent in the first two full quarters of the Obama recovery.

- During the first seven months of the Reagan recovery, payroll employment had increased by 1.2 million jobs, while during the first seven months of the Obama recovery payroll employment fell by 1.1 million jobs.

Why are both real GDP growth and job creation so slow after this recession? Unfortunately for American workers and their families, the current economic recovery is fighting the headwinds of excessive government spending and debt, the prospect of higher income taxes in the near future, and uncertainty over the future of health care and “cap and trade” legislation.

The expectations among entrepreneurs and business leaders for new costly and intrusive regulations and higher taxes on income, capital gains, and dividends starting in 2011 that will continue rising to service the explosion of federal debt under the Obama budget are the reason why firms, especially small businesses, are neither investing nor hiring new workers.

Congress should not waste taxpayer dollars on another stimulus bill, deceptively packaged as a “jobs bill.” Instead of pushing controversial, costly, and job-killing healthcare and “cap and trade” bills, Washington should reduce federal spending from President Obama’s 23 percent of GDP to no more than the post-war average of 19.5 percent of GDP over the next five years. Recently, Moody’s warned the United States that its reckless fiscal course threatens its triple-A credit rating. Congressional action to reduce and then eliminate the federal budget deficit through spending reductions and entitlement reforms will do more to increase business confidence and create new jobs than any “jobs bill.”

I look forward to hearing today’s testimony.

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