CONGRESS OF THE UNITED STATES
JOINT ECONOMIC COMMITTEE
CONGRESSMAN KEVIN BRADY
RANKING REPUBLICAN HOUSE MEMBER
NEWS RELEASE

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**STATEMENT OF
CONGRESSMAN KEVIN BRADY**

The Economic Outlook

I am pleased to join in welcoming Chairman Bernanke before the Committee.

The Federal Reserve's injection of $1.3 trillion of liquidity in the fall of 2008 quelled the panic in financial markets. Although I disagree with the Fed's participation in the "bailouts" of AIG and Bear Stearns because these institutions were insolvent, the Fed's timely actions as lender of last resort to solvent, but illiquid financial institutions and markets prevented the financial panic from becoming a depression.

During the spring of 2009, the Supervisory Capital Assessment Program, commonly known as the "stress test," and the subsequent capital increases by large banks restored confidence in financial institutions and markets. Largely because of these decisive actions, the U.S. economy is now beginning to recover. However, the recovery will continue to be subpar as businesses delay critical hiring and investment decisions due to the uncertainty generated by the dangerous level of federal debt and proposals by President Obama and Congressional Democrats to increase taxes, raise energy prices, and enact job-killing regulations.

Despite recent guidance from Washington to bank examiners about commercial mortgage loans, I am concerned that bank examiners are exacerbating real estate problems through their inflexibility. Pressed by their regulators, community and regional banks may not be renewing some performing commercial mortgage loans even though their underlying cash flow can easily service the debt.

That said, I would like to share with you my concerns about monetary policy going forward. We are in danger of repeating the mistakes that produced stagflation in the 1970s. Because of the lag time between monetary policy decisions and their effects, the Federal Reserve must act to prevent inflation well before the public perceives that prices are rising.

Yet there are voices demanding that the Federal Reserve delay action. Recently, economist Laurence Ball advocated keeping the federal funds rate extraordinarily low even as prices rise to reduce the unemployment rate, notwithstanding the fact that the so-called Phillips Curve trade-off between inflation and unemployment had been thoroughly discredited three decades ago.

Price stability contributes to economic growth, and only the Federal Reserve can maintain price stability. My concern is that Administration officials may press the Federal Reserve to delay raising interest rates and unwinding the expansion of its balance sheet to cover for the Obama's anti-growth policies.

Taxes, especially on small businesses and investment, are about to soar as the 2001 and 2003 rate reductions expire and $569 billion of new taxes to fund Obama's health care scheme are implemented. Additional costs are lurking in the form of regulations to control "greenhouse gas" emissions and complex "cap and trade" legislation.

Despite these tax increases, the CBO projects that higher spending under the President's budget would create deficits of $9.8 trillion over the next ten fiscal years, spiking publicly held federal debt to 90 percent of GDP by 2020. Unless Congress controls federal spending, these deficits will crowd-out private investment and slow economic growth.

Chairman Bernanke, I urge you to resist any attempt to delay raising interest rates in order to offset these anti-growth policies.

Regarding financial services legislation, I am concerned about weakening the Fed's independence, institutionalizing "too big to fail," and perpetuating the status of Fannie and Freddie as zombie banks. Making the President of the Federal Reserve Bank of New York a political appointee and stripping the supervision of smaller banks and their holding companies from the Fed would weaken the regional Reserve Banks and undermine the Fed's independence. Moreover, diverting the Fed's profits from the Treasury to pay for the Consumer Financial Protection Bureau would set a dangerous precedent that could open the floodgates for other off-budget federal spending.

The perverse incentives arising from the presumption of government backing caused large financial institutions, especially Fannie and Freddie, to take excessive risks and inflate a huge bubble in the housing market. Instead of ending "too big to fail," the Senate bill would establish a permanent bailout fund for large financial institutions that may exacerbate this problem by identifying who the government regards as too big to fail.

Incredibly, the Senate bill does not provide for final resolution of Fannie Mae and Freddie Mac despite costing taxpayers $128 billion so far with no prospect for any recovery. Like walking zombies, Fannie and Freddie with their explicit government backing are frightening most private capital away from re-entering housing finance.

Chairman Bernanke, I look forward to your testimony.

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