Joint Economic Committee
Republicans
Representative Kevin Brady
Vice Chairman

NEWS RELEASE

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STATEMENT OF VICE CHAIRMAN KEVIN BRADY

"The Economic Outlook"

Washington, DC – Thank you, Chairman Bernanke, for appearing before the Joint Economic Committee at this critical juncture to discuss America's economic outlook.

While we're all anxious for signs of a strong, sustainable recovery, the recent jobs report for May was grim – with U.S. employers creating a mere 69,000 non-farm payroll jobs, the fewest in a year. Job growth over the past two months has dropped by two-thirds over the first quarter of the year. Business and consumer confidence is down. First quarter GDP estimates were revised downward.

Four and a half years after the recession began Americans are enduring the 40th straight month of an official unemployment rate at or above 8% – a post-World War II record. And much of the drop in the unemployment rate from its high of 10% in October of 2009 is attributable to Americans simply dropping out of the workforce – the labor force participation rate is scraping a 30-year low. Without this severe drop in the number of workers since the recession began, the unemployment rate would be nearly 11%.

Since the recession ended, our economy has struggled to grow at an annualized average quarterly increase of 2.4%. To place it in perspective, of the 10 economic recoveries since World War II lasting more than a year, this recovery ranks, regrettably, tenth. And dead last is unacceptable by any standard.

Today, because our economy isn't flying strong and steady at 50,000 feet as it should be at this point, but rather flying low and slow, we are increasingly vulnerable to external shocks.

The economic crisis in Europe has intensified in recent weeks. A nascent bank run has begun in Greece. Greek banks are rapidly depleting their eligible collateral for lender-of-last-resort loans from the European Central Bank. Not just Greece, but the European Union as a whole appears to be in recession. Questions of whether Greece or other member-states of the European Monetary Union (EMU) will exit the euro and reissue national currencies are dominating the news.

Mr. Chairman, at this hearing I hope we'll get your perspective on Europe, including the likelihood of a Greek exit from the Eurozone, the contagion risk for the exit of other EMU Member-States, and the consequences of these possible events for the European Union, the United States, and the rest of the world.

When you appeared before this Committee last October – in response to a question about the tools you are considering to mitigate and limit the adverse economic impact on the United States – you testified you believe that the European Central Bank has enormous capacity to provide liquidity to European banks, that traditional currency swaps can provide dollar funding for global dollar money markets, and that the main line of defense is adequate supervision of well-capitalized American banks – with the Fed standing ready to provide as much liquidity against collateral as needed as lender-of-last-resort to the American banking system.

Is that still your assessment? Are you considering any tools beyond those?

In addition, American taxpayers and lawmakers – like their counterparts in Germany – are becoming increasingly concerned that they will be asked to bailout, however indirectly, struggling European governments and banks.

There is a growing concern that the U.S. Treasury will try to bail out the Eurozone either directly through the Exchange Stabilization Fund or indirectly through the International Monetary Fund. The Fed has a challenge as well, explaining to a skeptical Congress why traditional currency swap lines with the European Central Bank will not turn into an indirect bailout of Eurozone countries.

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At the same time that European economies are weakening, growth is also slowing in both China and India. Given the prospects of a global slowdown, some economists are speculating that the Federal Reserve may initiate a third round of quantitative easing.

Mr. Chairman, during the questions, I would like to discuss with you whether and under what conditions the Federal Reserve would consider launching a third round of quantitative easing.

It's my belief that the Fed has done all that it can do – and perhaps done too much. Further quantitative easing won't stimulate growth and create jobs. There exists a real risk that the massive amount of liquidity the Fed has already injected into the economy could trigger higher inflation before the Fed can execute its exit strategy.

I also believe another round of Fed intervention will increase uncertainty among job creators while, ignoring the genuine reason for low business investment and job creation: sound, timely fiscal policy.

The businesses I look to along Main Street aren't holding back on hiring because they're waiting to learn what the government will do <u>for</u> them – they're holding back on hiring for fear of what the government will do <u>to</u> them.

The obsessive push for higher taxes on job creators, the unprecedented tax and fiscal cliff we face at the end of this year, the unsustainable structural federal debt and deficits, along with a flood of red-tape, and fear of the consequences of the President's new health care law – these are the true drags on the economy.

No matter what actions the Fed takes, without strong leadership by the President today – and action by Congress now – on these fiscal issues, Americans will not see the jobs or the strong recovery we deserve.

And, of course, the combination of sluggish growth and the rapid accumulation of federal debt is a toxic brew that could eventually spark a debt-driven economic crisis here at home unless the United States soon reverses course.

Finally, Mr. Chairman, last January the Federal Open Market Committee adopted an explicit inflation target of 2%, measured by the price index for personal consumption expenditures.

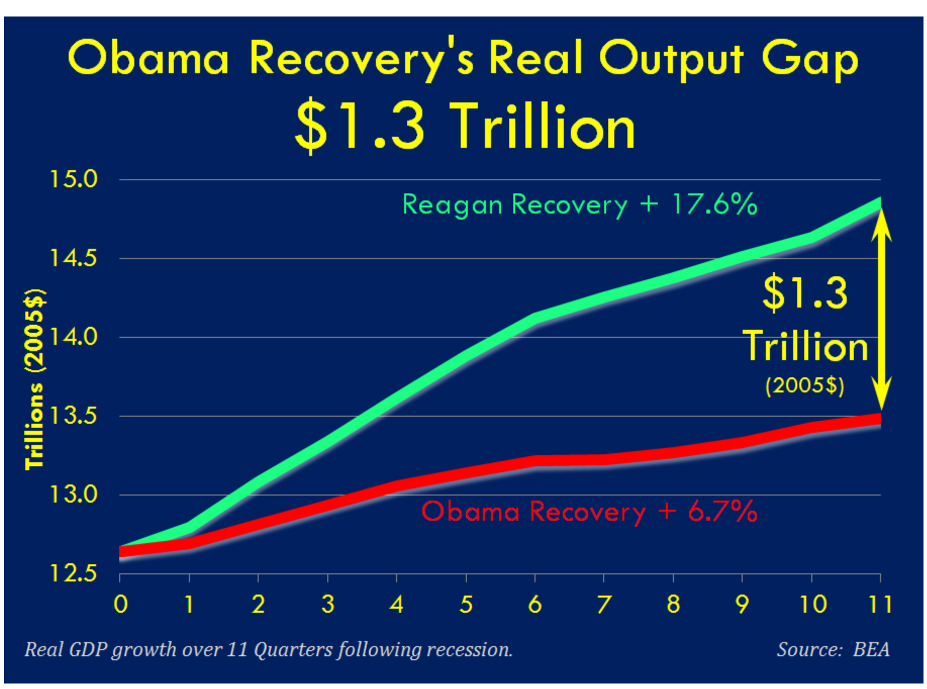
By doing so the Federal Reserve has taken an important step toward establishing a rules-based monetary policy going forward that should help to achieve price stability and protect the purchasing power of the dollar over time.

Nevertheless, your adoption of an explicit target raised as many questions as it answered. Is the 2% target a minimum, mid-point, or a maximum? How wide is the range? How long will the Federal Reserve tolerate a deviance from the range before taking action?

I also appreciated that you distinguished between that which monetary policy can control—namely prices—and that which monetary policy cannot control—namely employment.

By letter, I will request further clarification on this monetary policy statement in more depth.

With that, I again thank you for appearing before the Committee, and I look forward to your testimony.



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