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Economy is weaker than it appears, former Fed official says in Fort Worth

By Scott Nishimura

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The nation's weak economic recovery will be threatened if Congress doesn't reach a compromise to avert deep, automatic defense spending cuts next year, Robert McTeer, the former president of the Federal Reserve Bank of Dallas, said in Fort Worth on Thursday.

Problem is, the fall elections are in the way, McTeer, who served as Dallas Fed chief from 1991 to 2005, said during a speech at Colonial Country Club.

While the specter of big defense cuts "might bring the Republicans into a compromise attitude," McTeer said, the talks need to occur soon, "and I don't see any prospect of that."

More than \$1 trillion will be cut over a decade because Congress didn't reach an agreement to reduce the federal budget deficit.



Robert McTeer was Dallas Fed chief from 1991 to 2005.

McTeer, a distinguished fellow at the National Center for Policy Analysis in Dallas, said the economic recovery is weaker than it appears.

"The numbers really haven't improved all that much," he said.

Unemployment rates look better because a large number of discouraged job-seekers have left the workforce, he said. Housing still hasn't recovered, the fourth quarter's gross domestic product gain was propped up by a buildup in inventories, and consumers are still smarting from recessionary hits to their portfolios and home equity, he said.

He lauded the Federal Reserve's money-easing policies. "In my opinion, they saved our cookies," McTeer said.

The federal bank bailout, engineered by the Bush administration in its final weeks in office, "saved the banking system and didn't cost the taxpayers any money," McTeer said.

The massive federal stimulus promoted by President Barack Obama and the Democrats "probably did a bit of good, but at a great fiscal cost," McTeer said.

McTeer was also critical of Obama's campaign rhetoric proposing higher taxes for the wealthy.

"That's created a lot of uncertainty and caused people to withdraw," he said.