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JOINT ECONOMIC COMMITTEE

VICE CHAIRMAN JIM SAXTON

PRESS RELEASE

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VICE CHAIRMAN JIM SAXTON (R-N.J.)
"THE EMPLOYMENT SITUATION: February 2000"
Joint Economic Committee Hearing on Labor Market Conditions

WASHINGTON, D.C. – "I am pleased to welcome Commissioner Abraham and her colleagues to this hearing on the monthly employment situation.

"Today's report reflects the strong condition of the U.S. economy. Although employment growth was modest, the percentage of the population employed – the employment-population ratio – remains at a record level. The civilian unemployment rate is fluctuating around its lowest levels since the Nixon Administration. Although employment gains were soft in February, in the context of the performance of recent months labor market conditions overall appear to remain quite strong.

"The employment data released today are consistent with other data reflecting strong growth in the economy. Moreover, the expansion of the economy has been accompanied without an increase in inflation. Both unemployment and inflation have declined together during this expansion. This again disproves one of the most mistaken assumptions in postwar economic policy, the notion of a tradeoff between inflation and unemployment.

"In several previous hearings of the Committee, I have explored this issue in some detail with Federal Reserve Chairman Greenspan. We have agreed that the Fed's policy of minimizing inflation through informal inflation targeting has brought significant economic benefits. The Fed's policy, by bringing down inflation and interest rates, has boosted the economy and reduced unemployment as well. Those who argued that this disinflation policy would raise unemployment were proven wrong.

"As I have said many times, the thrust of the Fed's monetary policy has been extremely successful. Although Chairman Greenspan deserves enormous credit for successfully implementing this policy, the substance of this policy based in informal inflation targeting also is responsible for its very positive effects. More focus on the substance of Fed policy would provide a greater understanding of why this policy has worked so well and permit some demystification of monetary policy in general.

"However, in recent explanations of changes in monetary policy, the Fed has moved in recent months to a rationalization drawing from concerns about economic growth, healthy labor markets, and the stock market. On the other hand, our research suggests that a focus on intermediate market price indicators such as commodity prices, bond yields, and the value of the dollar together are better signals of potential future inflation. I am concerned that Fed statements have led the markets to expect larger adjustments in monetary policy than are justified by the leading price indicators. In other words, a policy of sustained Fed interest rate hikes would not be supported by the price data available at this time," Saxton concluded.

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