CONGRESS OF THE UNITED STATES

JOINT ECONOMIC COMMITTEE

CHAIRMAN JIM SAXTON

PRESS RELEASE

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FED INTER-MEETING INTEREST RATE CUT NEEDED IMMEDIATELY

--Excessive Tightness In Monetary Policy Signaled In Indicators--

WASHINGTON, D.C. - The excessive tightness of monetary policy continues to undermine the economy and should be redressed immediately by the Federal Reserve, incoming Joint Economic Committee Chairman Jim Saxton said today. Over a year ago, Saxton sent a letter to Chairman Greenspan expressing concerns that an over-tightening of monetary policy based on the wrong indicators could lead to an “unanticipated, unnecessary, and costly slowdown.”

“Today’s release of employment data confirms my concerns about a spreading and deepening of the economic slowdown,” Saxton said. “Speedy Federal Reserve action to cut short-term interest rates is imperative. Excessive tightness in monetary policy is a major reason for the economic slowdown, and this needs to be corrected as soon as possible.

“Leading market price indicators used by the Joint Economic Committee -- commodity prices, long-term interest rates, and the foreign exchange value of the dollar -- show that there is no danger of inflation in the pipeline. It is unfortunate that the Fed has seemed to rely more on other indicators such as strong economic growth and tight labor markets to guide its tight policies over the last year and a half. Only yesterday Fed Governor Meyer, a prime exponent of this approach, expressed surprise that the slowdown was ‘sharper than expected.’

“The data reported today show that manufacturing employment continues to fall. However, the declines in payroll employment now have spread beyond manufacturing. The diffusion index, which measures the breadth of payroll employment growth, has fallen for three months in a row. These employment declines are disturbing because the payroll employment measure is often viewed as a good coincident indicator of economic conditions.

“As I have stated for many months, less restrictive monetary and fiscal policies are needed to address the deep slowdown now underway. The Fed must do more to reduce interest rates and cushion the effects of its policy tightness, and Congress must act to reduce the record tax drag on the economy,” Saxton concluded.

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