CONGRESS OF THE UNITED STATES

JOINT ECONOMIC COMMITTEE

CHAIRMAN JIM SAXTON

PRESS RELEASE

For Immediate Release
October 17, 2001

Press Release #107-44
Contact: Christopher Frenze
Executive Director
(202) 225-3923

-- OPENING STATEMENT OF CHAIRMAN JIM SAXTON --
"MONETARY POLICY AND THE ECONOMIC OUTLOOK"

I would like to welcome Chairman Greenspan before the Committee to testify on monetary policy and the economic outlook. We appreciate your appearance here today, and look forward to your testimony.

I would also like to take this opportunity to thank Chairman Greenspan for his leadership and the Federal Reserve for the actions undertaken to cushion the effects of the September 11 terrorist attacks. The Federal Reserve's ability to deal with such an unspeakable crime has served the country well, and we are in your debt. It is also encouraging that the American people and economy have demonstrated amazing resilience in the face of these attacks.

Even before the events of September 11, the available economic data indicated that the economic slowdown that began in the middle of 2000 continued. The rate of real GDP growth has slowed quite sharply since the second quarter of 2000, barely remaining positive in the second quarter of this year. The manufacturing sector has been hard hit, losing over 1 million jobs since July of 2000. Investment growth has fallen over the last several quarters, and corporate profits are weak.

On the other hand, housing and consumer spending have held up fairly well. In addition, since last January the Fed has reduced interest rates nine times, Congress has lowered the tax drag on the economy, and energy prices are declining. Many economists had expected these factors to lead to an economic rebound in the last half of 2001, but the attacks have led them to forecast a delay in the recovery.

Financial markets and the economy have been disrupted by the terrorist attacks. The attacks have increased uncertainty, and caused a widespread reevaluation of risk and security. Delays and higher shipping costs in air and ground transport, additional insurance costs, higher expenses for security personnel and equipment, fortification of buildings and facilities, and other measures will have the effect of imposing something like a "security tax" on an already vulnerable economy. This burden will undermine the economy in the short run, and could tend to adversely affect both productivity growth and the economy's potential growth rate.

Although the precise amount of the extra burden imposed by these security costs is not known, it appears to be large and growing by the day. Over the last several weeks private sector economists have begun to consider this cost issue and its potential impact on an already weak economy. A logical policy response would be to offset these costs by relieving some of the tax burden on the private sector.

Monetary policy has addressed the economic situation with an easing that began last January. The Fed's policy moves so far this year have certainly provided economic stimulus, but the lags in monetary policy are long and variable. Given the lack of inflationary pressures, prudent action by the Federal Reserve could also contribute to improving the economic outlook.