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JOINT ECONOMIC COMMITTEE

CHAIRMAN JIM SAXTON

PRESS RELEASE

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STATEMENT OF CHAIRMAN JIM SAXTON

October Employment Situation

WASHINGTON, D.C. **-** I would like to welcome Acting Commissioner Orr before the Joint Economic Committee to testify on the October employment situation.

The employment data released today are the first to reflect the effects of the September 11 terrorist attacks. Payroll employment declined by 415,000, with job losses posted throughout the private sector. Factory employment declined for the 15th month in a row. According to the separate household survey, the unemployment rate increased half a percentage point to 5.4 percent.

The economic effects of the events of September 11 will aggravate an already weak economic situation. Although the resilience of the American people and economy has been very encouraging, the attacks have taken their toll, deepening the slowdown. A variety of economic statistics confirm that the economic slowdown that began in the middle of 2000 continues.

Earlier this week, the Commerce Department reported that GDP declined slightly in the third quarter of 2001. This shrinkage of the economy is a matter for concern, even if the decline was less than many economists had expected. A review of the GDP accounts shows that in recent quarters the fall of investment has been a major negative force on the economy, a fact that policymakers should consider in addressing the need for economic stimulus. The GDP report confirms the weakness apparent in most other economic data.

As I pointed out in September, one result of the terrorist attacks will be new spending on security that will not increase the quantity or quality of production. Firms will have to increase spending on security personnel, sophisticated security equipment, fortification of buildings and facilities, and other related expenditures.

These new expenses will have economic effects similar to the imposition of a “security tax” on an already vulnerable economy. The logical policy response is for changes in tax policy to address this problem with an offsetting tax reduction. For example, faster write-offs for security and other investments would offset at least some of the new security expenses and also address the bias in the income tax system against investment.

As Chairman Greenspan recently suggested before this Committee, tax incentives for capital investment are among the most effective form of fiscal stimulus. Short-term, temporary tax relief will not be effective because taxpayers know that it is not a permanent improvement in their incomes. Effective tax stimulus would improve incentives to work, save and invest by reducing the tax penalties for these activities. Some measure of relief is needed for individuals and firms burdened by the uncertainty and expenses of the new security situation.

It is my view that the weakness in business and consumer spending can be best addressed through monetary policy. An aggressive cut in the federal funds rate by the Federal Reserve this Tuesday is the best policy action that could be taken to bolster the demand side of the economy.

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