CONGRESS OF THE UNITED STATES

JOINT ECONOMIC COMMITTEE

CHAIRMAN JIM SAXTON

PRESS RELEASE

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STATEMENT OF CHAIRMAN JIM SAXTON
"The Economic Outlook"

It is a pleasure to welcome Chairman Hubbard before the Joint Economic Committee (JEC) to testify on the economic outlook. We appreciate your appearance here today, and look forward to your testimony.

According to the National Bureau of Economic Research (NBER), data following the terrorist attacks indicate that the weak economy had slipped into a recession earlier this year. 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, actually falling in the third quarter of this year. The manufacturing sector has been hard hit, losing over one 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 ten 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 inventory and 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 months, 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. Measures to reduce the cost of capital and address the sharp declines in business investment are particularly needed.

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. However, measures to offset the security tax and improve incentives for work effort and investment are also urgently needed to boost economic growth.

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