CONGRESS OF THE UNITED STATES

JOINT ECONOMIC COMMITTEE

CHAIRMAN JIM SAXTON

PRESS RELEASE

For Immediate Release
February 5, 2002

Press Release #107-67
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STATEMENT OF CHAIRMAN JIM SAXTON
ECONOMIC REPORT OF THE PRESIDENT

It is a pleasure to welcome Chairman Hubbard of the President's Council of Economic Advisers (CEA), and Council members Randall Kroszner and Mark McClellan to this hearing on the *Economic Report of the President.*

The Council's report reviews the economic slowdown that began in the middle of 2000, and later turned into a recession. The effects of higher interest rates, surging energy prices, falling stock market, and other factors slowing the economy are explained. The report notes the damage after September 11 resulting from the terrorist attacks and the serious economic disruption that followed. The Council nevertheless notes the positive effects of an easing of monetary policy by the Federal Reserve, and the reduction of the tax drag on the economy. The Council expects that the economy will rebound and real GDP will expand 2.7 percent over the four quarters of 2002 if appropriate policies are in place.

Recently released economic data do suggest that the economy may have bottomed out. However, much of this improvement is too recent and tentative to be called a trend. The fragility of the economy, reflected in declining investment and employment, remains a concern that justifies consideration of economic stimulus legislation by the Congress. Moreover, the economy is vulnerable to risks from adverse international economic developments, high debt levels, security costs, and other factors.

In the wake of the events of September 11, the prospect of economic recovery in the near future is especially impressive and reflects the remarkable resilience of the American economy and people. In addition, the President's success in weakening the terrorist network has improved domestic security and restored confidence, though much remains to be done. The restoration of domestic security is a key function of government and is an important precondition for a resumption of healthy economic growth. As the President has emphasized, the war against terrorism is hardly over, but we have made a good start. To date the terrorists have been unsuccessful in attaining their objective of seriously crippling the U.S. economy.

Turning to international economic policy, I would like to note the Council's statements endorsing reform of the International Monetary Fund (IMF). According to the CEA report, IMF liquidity loan "programs would appropriately involve short-term lending at penalty interest rates, to encourage and facilitate the borrower's quick return to private capital markets." This is very consistent with the Congressional mandates for IMF reform developed by this committee in 1998. A version of these transparency and lending reforms became law in 1998 as conditions attached to the IMF quota increase legislation. Thus Congressional actions already taken strongly support the Administration's position on needed reform of IMF lending programs.

In conclusion, the recent signs of economic recovery are encouraging but tentative. The economy has proven itself to be incredibly resilient, but it remains to be seen whether a sustained economic rebound is underway. Congressional enactment of economic stimulus legislation would be a prudent insurance policy against the potential for another dip in economic activity.

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