



CONGRESS OF THE UNITED STATES

JOINT ECONOMIC COMMITTEE

CONGRESSMAN JIM SAXTON

PRESS RELEASE

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FED SHOULD CONSIDER INTER-MEETING RATE CUT SOON -- PRICE INDICATORS SHOW TIGHTNESS IN MONETARY POLICY --

WASHINGTON, D.C. - The Federal Reserve should consider an inter-meeting interest rate cut as soon as possible, incoming Chairman Jim Saxton of the Joint Economic Committee (JEC) said today. As Saxton has pointed out previously, leading market price indicators used by the Committee – commodity prices, long-term interest rates, and the foreign exchange value of the dollar – continue to signal excessive tightness in monetary policy.

“I hope the Federal Reserve considers a significant inter-meeting interest rate cut soon, given the signs of tightness in monetary policy,” Saxton said. “With little danger of inflation in the pipeline, the potential for deflation should be considered. The Fed should act preemptively and aggressively to head off this possibility.

“I continue to believe that the excessive tightness in monetary policy is a major factor behind the economic slowdown that began in the second half of 2000. The updated economic growth figures reported last week verify my concerns about the magnitude of the economic slowdown that continues to reflect disturbing weakness. The signs of an overall slowdown underway for over 8 months are undeniable. Although there are some areas of continued strength, the figures suggest that the pace of economic growth has slowed to a crawl since the middle of last year.

“Industrial production peaked in September, and 371,000 manufacturing jobs have been lost since June of last year. The weakness in manufacturing and high technology is especially pronounced, and may be spreading to other sectors of the economy. The economic slowdown has had an obvious impact on corporate earnings that is reflected in the plunging stock market. There should be great concern about the potential for further deterioration in economic conditions.

“Policy makers should respond by relaxing overly tight monetary and fiscal policies. The Fed has responded, although more needs to be done. The record tax surpluses and resulting fiscal drag can and should be reduced by swift Congressional action. Now is a good time to lessen the counterproductive impact of the tax code on our economy. We need to take action to cushion the effects of the slowdown and facilitate a renewal of healthy economic growth in the future,” Saxton concluded.

For more information on monetary policy and the Federal Reserve, please visit our website at www.house.gov/jec.

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