



CONGRESS OF THE UNITED STATES

JOINT ECONOMIC COMMITTEE

**Congressman Jim Saxton
Ranking Republican Member**

PRESS RELEASE

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STATEMENT OF RANKING MEMBER JIM SAXTON

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ECONOMIC STIMULUS

WASHINGTON, D.C. – I am pleased to join in welcoming the witnesses appearing before us today. The recent slowdown in the economy is a serious concern to the public and to policymakers alike.

According to standard measures of performance such as economic growth and the unemployment rate, the U.S. economy appeared to be doing quite well through the third quarter of 2007. However, more recent data indicate that the pace of economic growth slowed sharply in the final quarter of the year.

The recent economic data make clear that there are a number of challenges facing the economy. Residential investment declined at a 20 percent rate in the third quarter, continuing a longer trend. Housing prices are falling in many areas of the country, as housing inventory levels rise. Oil prices are near \$100 per barrel, and the dollar is falling.

Since last summer, it has also become clear that a number of large financial institutions have invested in mortgage securities of dubious quality. Huge write-downs of assets by Citigroup and Merrill Lynch highlight serious concerns about the value of mortgage-backed securities. Uncertainty about the extent of bad investments related to subprime and other mortgages has spread, resulting in sharp declines in the valuation of bank stocks. Financial markets have become very volatile.

The Fed has acted by reducing interest rates and developing new ways to inject funds into the banking system. As a CBO report released yesterday noted, the federal government also has in place automatic fiscal stabilizers that have boosted GDP by an amount up to the equivalent of \$350 billion in past downturns. The actions of a powerful central bank and these automatic stabilizers ensure that a policy response to any severe slowdown is already in place. Although most economists view Federal Reserve monetary policy as the best means to stabilize the economy, additional steps may be considered.

In considering its options, the first thing Congress should do is make sure its actions do not further damage the economy. For example, policymakers should resist the temptation to use targeting as a rationalization for channeling resources into earmarks at the behest of special interest groups or others. How all this new spending can be reconciled with the majority's PAYGO rules is rather unclear at this point.

Furthermore, as the CBO report notes, infrastructure projects are not appropriate components of economic stimulus legislation because these appropriations will not be expended quickly, but be drawn down over time. There is a real risk that a stimulus package will morph into a special interest Christmas tree. As a Congress Daily headline said yesterday, "K St. Lines Up for Slices of Stimulus Pie." With politicians designing the economic stimulus package, a positive impact on the economy is far from guaranteed.

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