CONGRESS OF THE UNITED STATES

JOINT ECONOMIC COMMITTEE

VICE CHAIRMAN JIM SAXTON

PRESS RELEASE

For Immediate Release
May 21, 2003

STATEMENT OF VICE CHAIRMAN JIM SAXTON "THE ECONOMIC OUTLOOK"

Press Release #108-30
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WASHINGTON, D.C. – It is a pleasure to join in welcoming Chairman Greenspan before the Joint Economic Committee once again.

The latest economic figures indicate that the economy is still expanding, although at a slow rate. In recent years, the economy has been remarkably resilient despite terrorism, war, and pervasive uncertainty. However, one of the weakest areas in the expansion has been business investment, and until business investment rebounds the economy is not likely to expand at a vigorous rate.

Although it is clear that the persistent weakness in business investment followed the stock market plunge in 2000, it is not possible to know exactly when it will end. As the New York Fed President has observed, the "effects of the bursting of the stock market have proven to be far more long term and pervasive than expected." Some of these effects are readily seen in the weakness in economic and employment conditions that has been apparent for some time.

In his last appearance before this Committee last November, Chairman Greenspan stated that the economy was in a "soft patch," and suggested that when the unusual degree of uncertainty facing the economy was lifted, the rate of economic growth could begin to increase. Although some of this uncertainty may have been reduced, at least some of it still remains. The latest data suggest that the economy is still quite weak.

We all hope that the economy is poised for acceleration in the last half of the year. However, there is little compelling hard evidence that a pick-up in economic growth is on the horizon. There has been a recovery in business profits and some other indicators, but there are many other signals of continued economic fragility. In this economic environment, it is reasonable to consider adjustments in economic policy. Congress has responded with tax legislation designed to boost investment and economic growth.

Given the economic weakness and the downward pressures on prices, the Federal Reserve should implement another incremental easing of monetary policy. If policy is eased and the pace of economic expansion does take off in the second half of the year, monetary policy could readily be adjusted to take this into account. However, if the economy continues to sputter along for another six months, the Fed may have missed its opportunity.

The decline in the value of the dollar obviously is one factor to be considered, but it is clear that this decline is not the result of an inflationary monetary policy. In the absence of inflation, the risks of another easing move are low, and such a move is already expected in the financial markets. The risks posed by the weakness in the domestic and international economy appear to exceed the risk that inflation will emerge as a serious problem in the foreseeable future.

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