



CONGRESS OF THE UNITED STATES

JOINT ECONOMIC COMMITTEE

CHAIRMAN JIM SAXTON

PRESS RELEASE

For Immediate Release
June 25, 2001

Press Release #107-30
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FEDERAL RESERVE RATE CUT IS NEEDED

-- No Inflation Threat; Economic Conditions Weakening --

WASHINGTON, D.C. – Further Federal Reserve action to provide a significant reduction in interest rates is urgently needed, Joint Economic Committee (JEC) Chairman Jim Saxton said today. Saxton has been pointing to a lack of inflation and warning of the dangers of an economic slowdown since last year.

“Another significant reduction in interest rates by the Federal Reserve would help reduce the possibility of a prolonged slowdown or recession,” Saxton said. “Although the Federal Reserve already has acted aggressively this year to ease monetary policy, these steps may not be sufficient. Fortunately, forward-looking market price indicators -- commodity prices, foreign exchange value of the dollar, and long-term interest rates -- signal that there is no significant inflation threat in the pipeline.

“The Federal Reserve has done an excellent overall job of laying the groundwork for the longest peacetime expansion in U.S. history. Nonetheless, the central bank likely over-tightened monetary policy somewhat in 2000, contributing to a serious economic slowdown. However, it must be admitted that monetary policy is extremely difficult in the best of circumstances, and that the energy problem and stock market slide also played major roles in the slowdown. The magnitude of these factors was difficult to foresee at that time.

“This year the Fed has moved aggressively to ease monetary policy in one of the largest and most rapid reductions in the federal funds rate on record. However, the economic forces set in motion earlier are still slowing the economy, and further interest rate cuts are needed to offset them. As documented in JEC surveys since last year, economic conditions remain weak, and the potential for a prolonged slowdown or recession must remain a focus of macroeconomic policy,” Saxton concluded.

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