CONGRESS OF THE UNITED STATES

JOINT ECONOMIC COMMITTEE

CHAIRMAN JIM SAXTON

PRESS RELEASE

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STATEMENT OF CHAIRMAN JIM SAXTON

September Employment Situation

WASHINGTON, D.C. – I am very pleased to welcome BLS Commissioner Kathleen Utgoff to this first appearance before the Joint Economic Committee. As you know, this Committee has a long-standing relationship with BLS, and we look forward to working with you in coming years.

The employment data released today are consistent with other data showing moderate expansion of the U.S. economy. The unemployment rate was 5.6 percent, while household survey employment increased by 711,000. The payroll measure of employment was essentially unchanged in September, although it was revised upward to 107,000 in August. Recent payroll employment data reflect the economic slowdown evident in a host of data since the early months of 2000.

For example, the percentage of the population employed peaked in April of 2000, and the number of unemployed started increasing in the fall of 2000. The deterioration in manufacturing employment began even earlier. Manufacturing employment peaked at 18.9 million in April 1998, and has been trending downward ever since. Since April 1998, 2.2 million factory jobs have been lost.

One major factor behind the economic slowdown that began in 2000 is the stock market decline. The hardest-hit sectors have included technology and Internet-related companies, resulting in investment losses for many employees, retirees, and other investors. Many will recall that the NASDAQ peaked in March of 2000, but the extent and speed of its decline is not so widely recognized.

Between March 2000 and January 2001, the technology rich NASDAQ index fell from a level of 4803 to 2657, a decline of 45 percent. Nearly $3 trillion of wealth was wiped out in this period ending in January of 2001. Contrary to some recent attempts at historical revisionism, clearly a huge investment meltdown was well underway before any changes in Administration personnel and policies in 2001.

Economic growth, as measured by the total output of goods and services (GDP), fell dramatically in the middle of 2000. In the second quarter of 2000 real GDP growth was 4.8 percent, but in the second half of the year growth had slowed to an annual rate of about one-fifth that rate. Industrial production, one of four major indicators used to determine the timing of recessions and expansions, peaked in June of 2000, then trended downward through the end of the year.

The economic and financial deterioration has caused the budget to swing into deficit. On its own, the 2002 impact of the Bush tax cut, scored at $38 billion dollars, would still have left a huge budget surplus amounting to over $250 billion. However, this economic and financial market deterioration since 2000 accounted for well over $300 billion in lost revenues and added spending, erasing the surplus and pushing the budget into deficit.

The economic slowdown so evident in 2000 turned into a recession in the first quarter of 2001. In the current issue of *The Atlantic* magazine, Clinton Administration chief economist, Dr. Joseph Stiglitz, stated "…the economy was slipping into recession even before Bush took office, and the corporate scandals that are rocking America began much earlier." While I do not agree with his entire article, Dr. Stiglitz is right on the critical factual point regarding the origins of the recession.

The current economy has strengths and weaknesses, and there are valid reasons to favor policies to promote stronger economic growth. However, the factual record refutes attempts to link the economic slowdown with changes in tax policy. The steps taken in 2001 to relax monetary policy and reduce the tax burden softened the damage inflicted by the recession.

Given the potential of deflationary forces to undermine the current economic expansion, additional policy changes may be necessary. In particular, I would urge the Federal Reserve to consider an additional easing of monetary policy to preempt the possible danger of deflation to price stability. The Federal Reserve's deft actions in the recent past have demonstrated their ability to prevent potentially deflationary forces from damaging the U.S. as well as the international economy.

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