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VICE CHAIRMAN JIM SAXTON

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Contact: Christopher Frenze
(202) 225-3923

SLOW ECONOMIC GROWTH LEADS TO DEFICIT SPENDING

-- Healthy economic growth plus restraint in growth of spending can restore surpluses --

WASHINGTON, D.C. – The federal budget deficit is a manageable problem and should not preclude pro-growth tax relief, Joint Economic Committee (JEC) Vice Chairman Jim Saxton said today. He made his remarks in connection with the release of a new JEC study, "*Deficits, Taxation, and Spending*."

The "baseline" forecast of the Congressional Budget Office is that federal deficit spending could amount to 2.3 percent of gross domestic product this year. "Historical experience indicates that a deficit in this range and even somewhat larger is quite sustainable and will not hurt economic growth," Saxton remarked.

"It is important to remember that recent budget deficits have arisen primarily from the stock market decline and economic slowdown that began in the middle of 2000. The deficit is a symptom of larger macroeconomic problems we must address through tax policies to boost economic growth and limit the downside risks that could undermine the expansion. Of course, additional national security and other federal spending have also contributed to the current fiscal situation.

"Once healthy economic growth is underway, deficit spending can be addressed by expenditure restraint. In so doing, we should ask what functions are appropriate for the federal government to perform, and how it can perform them most efficiently. On the revenue side, we should ask how to minimize the tax system's interference with the hard work, saving, investment, and innovation in the private sector that generates economic growth.

Saxton noted that budget deficits do not automatically translate into higher interest rates. "Interest rates depend on many factors, including expectations of inflation and economic growth. In the last few years, nominal interest rates have fallen even as the federal budget has swung from surplus into deficit. Part of the reason for low rates is the continued commitment of the Federal Reserve to keeping inflation low."

Saxton concluded, "Sound fiscal policy requires more than looking at budget deficits or surpluses alone. It requires thinking about what government should do and how it can do it most efficiently. Given the current state of the U.S. economy and the geopolitical situation, the deficit projected for this year is moderate. Over the next several years, the best way to reduce the deficit is to restrain government spending so that it grows more slowly than the overall economy. With healthy economic growth, a deficit can in due course turn into a surplus."

For more information on the federal budget and taxation, please visit our website at www.house.gov/jec.

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