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INTERNATIONAL ECONOMY CAN BE STEADIED BY CONSTRUCTIVE POLICY STEPS

WASHINGTON D.C. — Steps to stabilize the international economy were presented today by **Joint Economic Committee (JEC) Chairman Jim Saxton (R-N.J.)**.

Saxton proposes a coordinated cut in interest rates that should be implemented by the central banks of the G-3 nations (the United States, Germany and Japan); continuation of the U.S. monetary policy of price stability; U.S. tax cuts to ensure continued growth; minimization of moral hazard internationally including reform of the International Monetary Fund (IMF); and encouraging the Japanese to adopt growth policies.

“These steps would go a long way to restoring confidence in the international economy,” Saxton said. “The lack of credible leadership in the current situation is certainly unfortunate. Shoveling more money into an unreformed IMF, whose programs have failed, is not a substitute for real change in international economic policy.” The key ingredients of this approach are:

- A coordinated interest rate cut should be implemented by the G-3 central banks. Such coordination minimizes unnecessary exchange rate volatility associated with even a modest interest rate cut strategy. A prudent cut in interest rates would be insurance against world deflation and also would be consistent with price stability.
- The U.S. focus on fostering economic growth must be maintained. Continued growth in the world’s largest economy makes an important contribution to global economic expansion. The resultant expansion of the world economy provides the foundation necessary to facilitate needed structural reforms in emerging economies. Monetary policies of gradual disinflation, and a tax policy that provided incentives to innovate and produce, have sustained the long growth trend in the United States in the past two decades. In sum, the policies associated with the U.S. growth of the past two decades should be continued in order to bolster the world economy. Also needed is tax reduction to ensure continued U.S. growth.
- An international trading system characterized by open commodity and capital markets will maximize economic gains from international cooperation. Measures attempting to control international financial flows would be destructive and counterproductive and should be resisted.
- Fundamental reform of the IMF (as in the IMF Transparency and Efficiency Act), and encouragement to reduce other sources of moral hazard around the world, would improve the prospects of financial stability. IMF transparency, IMF lending at market interest rates, and restraint of additional IMF funding would limit counterproductive policies. Critically needed banking reforms in emerging economies should be encouraged to limit other sources of moral hazard.
- Japan must be encouraged to stimulate its economy and clean up its banking system. Such actions are necessary for the world’s second largest economy to bolster global and especially Asian economic growth. As many have noted, the weakness of the Japanese economy is a primary source of the economic problems in Asia.

“These steps won’t solve all economic problems in the world, but they would improve the international economic environment,” Saxton said. “In the wake of the failure of the IMF in Russia, and the resulting shock waves still being felt around the globe, clearly a new approach is needed, which involves careful analysis and reform of current institutions and policies.”

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