CONGRESS OF THE UNITED STATES

JOINT ECONOMIC COMMITTEE

JIM SAXTON, CHAIRMAN

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PRESS RELEASE

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STATEMENT OF CHAIRMAN JIM SAXTON EMPLOYMENT HEARING OPENING REMARKS

-- Saxton Calls for Further Federal Reserve Rate Cuts --

October 2, 1998

WASHINGTON, D.C. -- I am pleased to welcome Commissioner Abraham before the Joint Economic Committee this morning.

The employment data reported this morning suggest a slowdown in the economy is underway. The meager 69,000 employment gain in the closely watched payroll survey is the clearest signal so far that the economy may be cooling off. Moreover, this weakness in payroll employment is not confined to one particular industry, but is reflected in all major sectors. The slowdown in payroll employment growth is not a one-month aberration, but has been underway for several months. The recent employment trend should be a concern to policy makers, but a review of other data is needed to determine its implications for economic policy.

The BLS price data continue to reflect a current pattern of disinflation, with no real evidence of inflation. The forward-looking market price indicators used by the JEC – bond yields, commodity prices, and the dollar exchange rate – also continue to show that there is no sign of future inflation in the pipeline. The price data have shown disinflation and a growing potential for deflation over the past year, and this has led me to call for a Federal Reserve cut in interest rates since last winter.

I support the Federal Reserve's decision to cut the federal funds rate last Tuesday. Though a rate cut was long overdue, a review of its effects on market price indicators would be needed before having a firm basis to judge whether it went far enough. However, the sharp decline of the long bond yield in the days since the rate cut suggests that further rate reduction would be appropriate. Furthermore, the other market price signals also show no signs of increasing inflation expectations.

The FOMC does not have to wait until its next scheduled meeting on November 17 to act. An expeditious Federal Reserve cut in the federal funds rate as well as the discount rate could send an important signal to the U.S. and the world. A Federal Reserve reduction in the discount rate could be interpreted as signaling the possibility of future easing of monetary policy.

In conclusion, I think the Federal Reserve should immediately consider a further reduction in interest rates. Over the last seven years the Federal Reserve has done a splendid job of gradually squeezing inflation out of our economic system and implementing a policy of price stability through informal inflation targeting. This has sustained the long economic expansion that flooded the Treasury with revenue, balancing the budget. But a policy of price stability precludes both inflation and deflation. At the moment, the growing potential of deflation appears to be more serious than a resurgence of inflation. The prudent course would be a careful easing of monetary policy in the months ahead.

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