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VICE CHAIRMAN JIM SAXTON

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NEW JEC STUDY EXAMINES THE BURSTING OF THE STOCK MARKET BUBBLE IN 2000 AND ITS ECONOMIC IMPACT

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Contact: Christopher Frenze
Chief Economist to the V.C.
(202) 225-3923
Television & Radio
Contact: Stephen Thompson
Public Affairs Officer
(202) 329-6288

WASHINGTON, D.C. – The bursting of the stock market bubble in 2000 was the primary factor sowing the seeds of economic weakness for several subsequent years, according to a new Joint Economic Committee (JEC) study released today by Vice Chairman Jim Saxton. The new study, *Macroeconomic Performance Since 2000*, analyzes how the impact of the bursting stock market bubble undermined investment and economic growth, and aggravated ongoing problems in the manufacturing sector.

According to one point of view, overall economic conditions were strong until the new Administration took office in January 2001, initiating policies that caused economic ruin. However, the new study points out that this argument is fundamentally incorrect because the bursting of the stock market bubble and resulting economic deterioration began well before the Bush Administration took office, as suggested by the chief economist of the preceding Administration. For example, after the bubble burst in the first quarter of 2000, investment growth fell sharply in the second half of the year, and the economy actually shrank in the third quarter. This weakness in investment also further weakened the manufacturing sector and worsened already declining manufacturing employment.

“In recent weeks, some have argued that we should compare the supposedly terrible economic conditions today with those of four years ago,” Saxton said “First of all, the economy currently is very strong, according to a variety of standard measures.

“Secondly, the notion that the economy in 2000 was in perfect shape is mistaken. The bursting of the largest stock market bubble in several generations led to a tidal wave of financial destruction that swamped much of the economy, especially the information technology sector. The negative effects rippled through the economy, resulting in widespread bankruptcies, recession and slower growth, and a long and painful adjustment process that took several years to complete. The economy was also subject to additional shocks from terrorist attacks, wars, and corporate accounting scandals.

“The good news is that the American people and economy have displayed remarkable resilience in recent years. We have weathered the storms, and the economy has been strong over the last year, creating more than 1 million jobs since September. Tax relief and accommodative monetary policy have made important contributions to the current health of the U.S. economy,” Saxton concluded.

For more information on economic conditions, please visit our website at www.house.gov/jec.

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