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VICE CHAIRMAN JIM SAXTON

PRESS RELEASE

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BURSTING OF THE STOCK MARKET BUBBLE IN 2000 DAMAGED THE ECONOMY

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WASHINGTON, D.C. – The notion that the economy was in great shape through 2000 and that all its problems stemmed from policies initiated in 2001 is factually false, Vice Chairman Jim Saxton said today. Saxton noted that the bursting of the largest stock market bubble in several generations occurred in the first quarter of 2000, and caused widespread economic damage readily visible in standard economic statistics by the second half of that year.

"When the huge stock market bubble burst in the first quarter of 2000, it led to a tidal wave of economic destruction that swamped much of the economy, leading to widespread business failures and painful years of restructuring," Saxton said. "The telecom and high technology sectors were only the most obvious examples of the damage left by the excesses of the 1990s.

"It is true that the stock market bubble caused an investment boom in the final years of the last decade, but much of this proved to be excessive, speculative, and ultimately unsustainable. When the bubble burst, it dragged down much of this overinvestment as companies were liquidated or restructured. Investment growth fell sharply in the second half of 2000, undermining the economy.

"By the third quarter of 2000, the economy was actually shrinking. The fall-off in investment growth also aggravated problems in the manufacturing sector, where many capital goods are produced. Manufacturing employment, which had peaked in March of 1998, continued to fall; manufacturing employment declined in 1998, 1999, and 2000. Household income and workers' earnings also began to stagnate in 2000.

"The economy also sustained a combination of unprecedented shocks from terrorist attacks, wars, and corporate scandals. The resulting uncertainty exacerbated the weakness in investment, the key soft spot in the economy. However, tax incentives adopted in 2003 have clearly boosted investment and accelerated economic growth. Over the last 4 quarters the economy has grown 4.7 percent, 1.7 million jobs have been created in the last 12 months, and the unemployment rate stands at 5.4 percent," Saxton concluded.

For more information please visit our website at www.house.gov/jec, and see the JEC studies, *Macroeconomic Performance since 2000*, and *Economic Repercussions of the Stock Market Bubble*.

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