CONGRESS OF THE UNITED STATES

JOINT ECONOMIC COMMITTEE

CHAIRMAN JIM SAXTON

PRESS RELEASE

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-- Opening Statement of Chairman Jim Saxton -- The Economic Outlook and Tax Policy

Chairman Hubbard, it is a pleasure to welcome you before the Joint Economic Committee this morning. I believe this is your first appearance before Congress as Chairman of the President's Council of Economic Advisers, and we look forward to your testimony.

The long period of economic growth that began in the 1980s has continued, aside from a short and mild recession in the 1990-1991 period. The economic benefits of such a sustained period of economic growth are reflected in the general prosperity and health of the economy evident through the middle of last year. Real GDP growth has been strong as labor productivity gains led to higher output and income. Inflation has been reduced by the Federal Reserve, interest rates have trended downward, and rates of unemployment and poverty have fallen over the course of the expansion.

However, as I noted last December, the economy has entered into a sharp slowdown that began around the middle of last year. Real GDP growth fell from 5.6 percent in the second quarter of 2000 to only 1 percent by the end of the year. Investment, consumption, and employment have also reflected the sharp slowdown. Manufacturing employment has been declining since July of last year, and employment losses are now spreading to other sectors of the economy.

The Federal Reserve has responded by sharply reducing short-term interest rates and relaxing monetary policy over the last five months. I believe the actions of the Fed will significantly improve the prospects for a resumption of healthy economic growth later this year. However, I remain concerned about current economic conditions as reflected in the recent two consecutive declines in payroll employment. Although I do not believe the tax bill currently under consideration will make the economy turn on a dime, I do think it will have a positive effect over the next year that is much needed in the current environment.

The weak economy is bearing the burden of a tax system that is systematically biased against work, saving and investment, and is literally counterproductive. Real bracket creep gradually continues to push taxpayers into higher tax brackets. The additional burdens of what economists call deadweight losses are a significant problem that is not well recognized by many policymakers.

Essentially, deadweight losses arise because the tax system imposes added economic costs in addition to the revenues raised by taxation. In other words, for every incremental dollar raised in revenue, the tax system imposes others costs amounting to 30 or 40 cents on the economy. Thus, each dollar in tax reduction can provide significantly more than a dollar in benefits to the economy. In my view this is a key reason to reduce the burden of our counterproductive tax system.

Fortunately, progress is being made on a bipartisan tax bill to reduce the tax burden on the U.S. economy. It will not solve all our immediate problems, but it will improve the prospects for healthier economic growth in the years to come. The stronger economy will, in turn, help us to address the longer-term economic and budget challenges facing the nation. We have a tremendous opportunity to enhance the economic future of America by reducing the weight of our counterproductive tax system.

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