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VICE CHAIRMAN JIM SAXTON

PRESS RELEASE

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ECONOMIC BUBBLES BURST FOUR YEARS AGO

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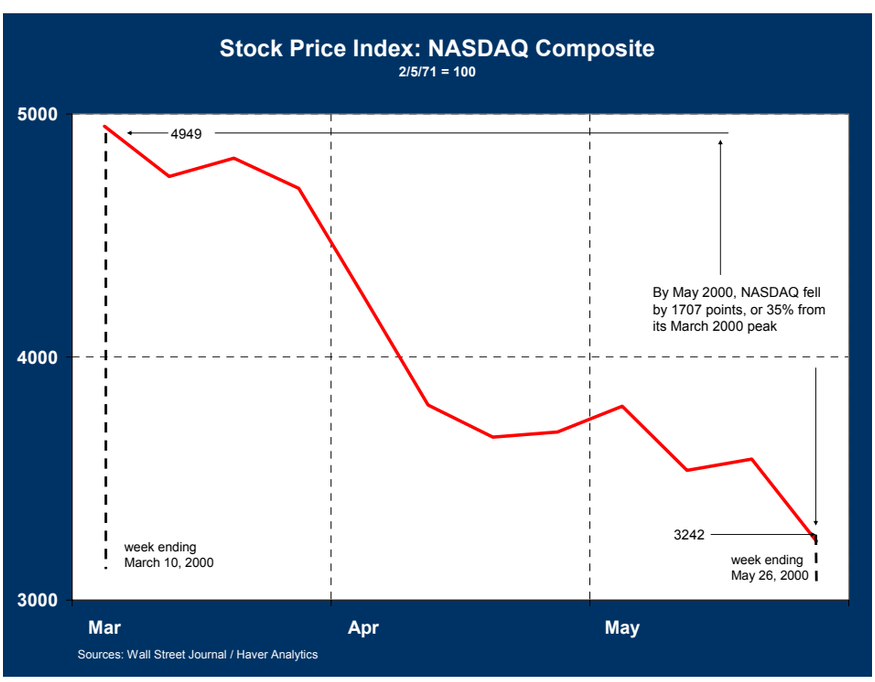
WASHINGTON, D.C. – The bursting of the stock market and technology bubbles four years ago in 2000 led to a sharp economic slowdown and stagnation of income growth, Vice Chairman Jim Saxton said today. The stock market bubble had encouraged over-investment by reducing the cost of capital, but its bursting led to a dramatic decline in investment that hobbled the economy for several years. Between its peak in early March and the last week of May 2000, the bursting of the largest stock market bubble in several generations resulted in a drop of over 1,700 points in the Nasdaq, a decline of 35 percent. This stock market collapse continued in 2000, as its effects spilled over into many other areas of the economy.

"I think an in-depth examination of economic conditions in 2000 is very desirable, because the bursting of the stock market bubble explains so much of the economic slowdown that occurred in that year," Saxton said. "The bottom line is that by May of 2000, the market value of the Nasdaq had declined by $2 trillion, and this simply is much too large a factor to ignore. So, as we examine economic conditions four years ago, let us not forget the impact of the bursting of the largest stock market bubble in many decades, and the related distress throughout much of the technology sector.

"The fact is that the stock market collapse undermined investment, and this worsened conditions in the manufacturing sector where capital goods are made. Manufacturing employment had been declining since March 1998. The overall slowdown in the economy also established a multi-year pattern of stagnation of median household income growth that began in 2000.

"In sum, during 2000 the economy slowed, manufacturing employment declined, and household income stagnated," Saxton concluded.



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