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VICE CHAIRMAN JIM SAXTON

PRESS RELEASE

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FEDERAL RESERVE CAN EASE MONETARY POLICY DESPITE LOW SHORT-TERM INTEREST RATES

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WASHINGTON, D.C. – Federal Reserve monetary policy remains a potent force even when short-term interest rates are very low, according to a Joint Economic Committee (JEC) study released today by Vice Chairman Jim Saxton. The study, *Monetary Policy in Low Inflation/Deflation Environments*, examines the options available to the Federal Reserve to ease monetary policy even when the short-term Federal Funds rate is barely positive.

Saxton, citing the absence of inflation and the potential danger of downward price pressures on price stability, has called for further easing of monetary policy given the domestic and international economic climate.

"Since the 1980s, the Fed has done a good job in gradually squeezing inflation out of the economic system, lowering interest rates and improving the prospects for sustained economic growth," Saxton said. "However, just as the Fed must move preemptively to address the potential for inflation, the Fed must also be poised to ensure price stability by countering persistent downward pressures on prices. This situation is not the kind of problem the Federal Reserve has had to grapple with in many decades.

"I am looking forward to Chairman Greenspan's testimony before the JEC this Wednesday to see how he evaluates the current economic environment. The pressures on prices, and the general weakness in the economy, have led me to conclude that the Federal Reserve should ease monetary policy soon. If the much-delayed pick-up in economic growth occurs, the Fed can always make the necessary adjustments in monetary policy, but if it doesn't, the Fed will have missed an opportunity," Saxton concluded.

The new study examines several options, including a central bank commitment to keeping the Federal Funds rate low for an extended period of time, or Fed purchases of longer-term Treasury securities. Theoretically, the Fed could also purchase foreign exchange and private sector debt, although these options would be problematic. Federal Reserve lending to financial institutions and others would also be theoretically possible.

For more information on the Federal Reserve and monetary policy, please visit our website at www.house.gov/jec.

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