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JOINT ECONOMIC COMMITTEE

VICE CHAIRMAN JIM SAXTON

PRESS RELEASE

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INFLATION TARGETING WOULD CLARIFY DISINFLATION DEBATE

-- Fed easing needed to provide insurance for the economy --

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WASHINGTON, D.C. – The Federal Reserve's adoption of explicit inflation targets would increase the transparency of monetary policy, reduce uncertainty, and clarify the current discussion over disinflation and the risk of deflation, Vice Chairman Jim Saxton said today. In previous Congresses, Saxton introduced legislation to mandate the use of explicit inflation targets by the Federal Reserve.

"The Federal Reserve has been very successful in implementing what I have long called an informal inflation targeting policy," Saxton said. "Uncertainty has been reduced, as inflation and interest rates have fallen to extraordinarily low levels. However, the direction of future monetary policy in this new disinflationary environment is somewhat unclear because the lower bound of the inflation target has not been specified.

"At the Joint Economic Committee hearing last week, Chairman Greenspan responded to my question about monetary policy by stating that the Fed will not permit rapid disinflation to develop into deflation, and that the Fed has the means to prevent this by purchasing longer-term Treasury securities, among other options. However, we have no way of knowing at what point the Fed might act. If explicit inflation targets were now in place, the lower bound of the inflation range would be known, and this would reduce uncertainty over the future course of monetary policy.

"I think some of the concerns about deflation have been overstated, but as Chairman Greenspan noted, it is one risk facing the economy. On the other hand, many economic forecasters have pointed to various factors that may be stimulating the economy, but their predictions for economic growth have proven to be overly optimistic, and have been subject to continual downward revision. Given the weakness in the international and domestic economic environment, a further easing of monetary policy would provide some additional insurance of price stability and healthy economic growth. If this easing turns out not to have been needed, the Fed can readily make necessary adjustments," Saxton concluded.

For more information on inflation targeting and monetary policy, please visit our website at www.house.gov/jec.

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