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JOINT ECONOMIC COMMITTEE

CHAIRMAN JIM SAXTON

PRESS RELEASE

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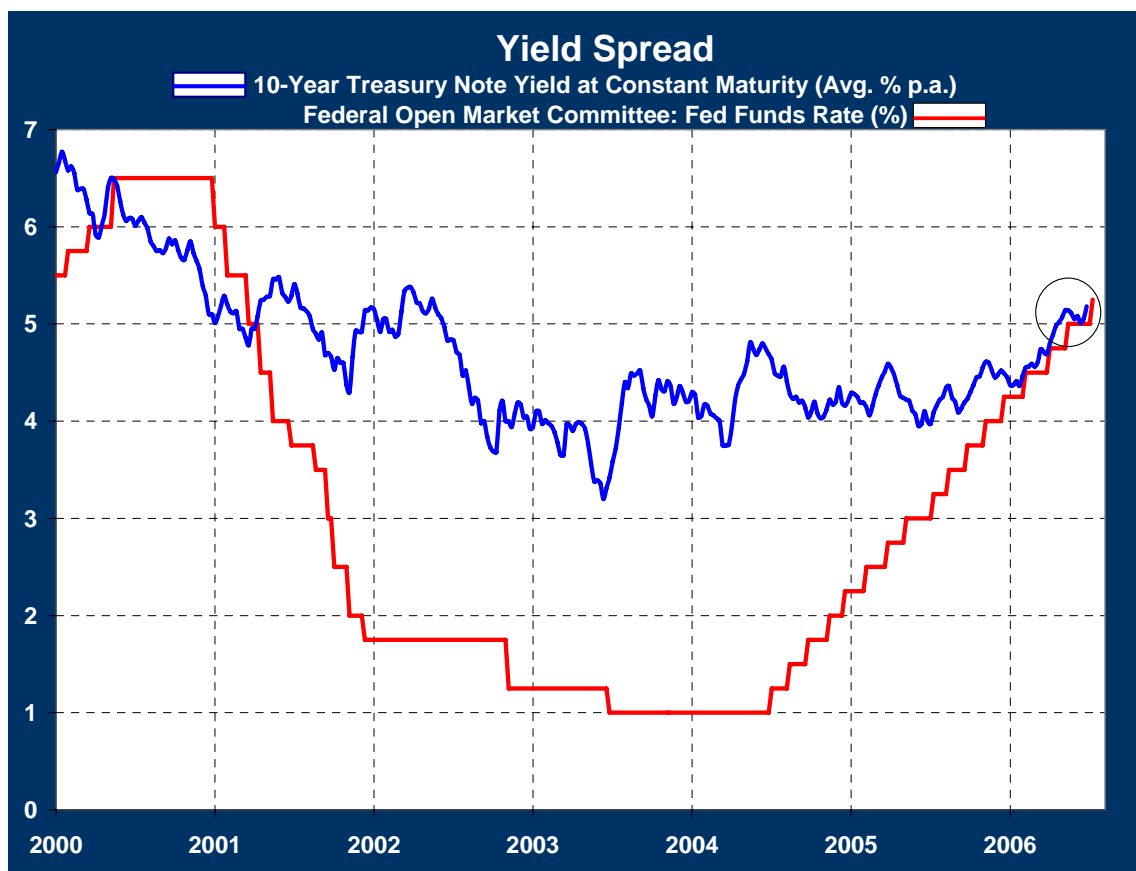
FED RAISES RATES AGAIN

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WASHINGTON, D.C. The 17th consecutive 25 basis point increase in short-term interest rates by the Federal Reserve, and questions about how to interpret Fed policy, highlight the need for a more formal adoption of inflation targets, Joint Economic Committee Chairman Jim Saxton said today. Today the Federal Reserve increased the federal funds rate to 5.25 percent.

“While there is much discussion about the Fed’s inflation ‘comfort zone’ with respect to recent changes in various price measures, there is continuing uncertainty about Fed policy,” Saxton said. “Much of this uncertainty is unavoidable given the lags in the impact of monetary policy on the economy, and the difficulties of forecasting changes in the economy. I continue to believe that adoption of an explicit inflation targeting framework by the Fed would reduce some of this uncertainty.

“As the Fed continues to raise interest rates to keep potential inflation pressures in check, short-term interest rates now appear to be in the neutral range. Unfortunately, it is impossible to know how much of the tightening in monetary policy in recent years has already taken effect, and how much of the tightening is yet to have an impact on the economy. As a result, Fed policy is now at a critical juncture. Backward-looking inflation measures cannot guide future monetary policy, and forward-looking inflation indicators are mixed. Given this ambiguity, Chairman Bernanke’s comments before the Joint Economic Committee last April 27 allowing for a possible pause in future Fed tightening were quite reasonable,” Saxton concluded.



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