CONGRESS OF THE UNITED STATES

JOINT ECONOMIC COMMITTEE

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JEC Chairman Jim Saxton Voices Concerns to Congress About Federal Reserve and Interest Rates

Remarks from House Floor

"Few issues are as important as the conduct of monetary policy by the Federal Reserve. The monetary policy of the Federal Reserve determines whether there is high or low inflation, and can influence both short- and long-term interest rates. Sound monetary policy can create a framework favorable to economic growth, while inflationary monetary policy undermines growth. Given their importance, Congress has a responsibility to monitor how the monetary powers it delegated to the Federal Reserve are being carried out.

Over the last few months I have released a number of studies on monetary policy. These studies explain the reasons why price stability should remain the central focus of monetary policy. According to this research, the Federal Reserve's anti-inflation policy of price stability has worked well in recent years. However, lately I have had some disagreement with the Fed about how price stability should be implemented.

Our JEC research suggests that if there is inflation, it should be visible in price measures such as the consumer price index (CPI), commodity prices, value of the dollar, and bond yields. However, according to these price measures, there is no real evidence of inflation to justify Federal Reserve increases in interest rates. The Federal Reserve, on the other hand, seems to view economic growth itself as potentially inflationary. However, I do not agree that healthy economic growth is itself inflationary.

I opposed the increase in interest rates announced by the Federal Open Market Committee (FOMC) on March 25th based on our research at the JEC. According the price measures used by the JEC, there was no indication of inflation justifying this increase in interest rates. For the same reason, **I do not think the evidence would support an increase in interest rates at the FOMC meeting next Tuesday.**

In connection with JEC research, I have also suggested that more openness is needed in Fed policy. The lack of a clear public explanation of Federal Reserve policy leads to confusion and speculation about the direction of monetary policy. The news media and financial markets hang on every word uttered by Federal Reserve officials for some hint about future monetary policy, often exaggerating and misinterpreting insignificant statements. If the Fed were clearer and more open about its conduct of monetary policy, a major source of market instability would be removed. For example, a more complete and timely release of FOMC minutes would be a big step in the right direction.

In conclusion, price measures of inflation do not currently support Federal Reserve actions to raise the Federal Funds rate. While supportive of the objective of price stability, I do not agree with those at the Federal Reserve who tend to view economic growth itself as potentially inflationary. Furthermore, Federal Reserve efforts to be more open and transparent should be encouraged and continued."

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