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VICE CHAIRMAN JIM SAXTON

PRESS RELEASE

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INFLATION TARGETING BILL PROVIDES FLEXIBILITY AND TRANSPARENCY

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WASHINGTON, D.C. – Recently introduced inflation targeting legislation addresses the need for flexibility in monetary policy, Vice Chairman Jim Saxton said today. The bill, H.R. 2547, would enhance transparency in monetary policy while providing ample discretion for Fed officials to manage economic risks.

“Under this inflation targeting legislation, the Fed would set the target range, define the price measure, and execute monetary policy,” Saxton said. “It is difficult to see how such legislation could be viewed as unduly onerous or restrictive. The current problem is that it is impossible to know exactly what price stability means in this low inflation environment. This ambiguity has contributed to series of communications problems between the Fed and the financial markets,” Saxton concluded.

For example, a recent Bloomberg wire story, *Fed Loses Credibility With Poor Communication, Yields Show*, discusses the problem of defining price stability in a low inflation environment. As the article notes, “William Dudley, chief U.S. economist for Goldman Sachs & Co., and Richard Berner, chief U.S. economist for Morgan Stanley, have said recently that Fed officials should explain what they mean by the oft-stated commitment to ‘stable’ prices. Right now, nobody knows if that is inflation of 1 percent or 2 percent, or somewhere in between.”

This article also notes the support for inflation targeting among a number of Fed officials, and the publication of a paper supporting inflation targeting by Athanasios Orphanides, described as “an influential Washington Fed staff economist and advisor to the FOMC.” Chairman Greenspan, in a speech last Friday, reiterated his opposition to formal inflation targets. Several years ago at a JEC hearing, Greenspan acknowledged that the thrust of Fed policy was consistent with informal inflation targeting.

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