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FED POLICY EASES DEFLATION FEARS AND CALMS MARKETS – Additional Policy Changes Still Needed –

WASHINGTON, D.C. — The Federal Reserve's recent interest rate cuts have stemmed deflation fears and thus stabilized international financial markets, but other policy changes still are needed, **Joint Economic Committee (JEC) Chairman Jim Saxton (R-N.J.)** said today.

Last September 3, Saxton outlined a five-point plan for international economic policy starting with interest rate cuts by the Federal Reserve and other leading central banks.

Saxton's calls for interest rate cuts last September were based on the lack of evidence of actual and expected inflation pressures. The signs of current or future inflation monitored by the JEC continued to show no evidence of potential inflation. The market price indicators used by the JEC – leading indicators of potential future inflation or deflation – suggested in September that an easing in monetary policy was appropriate to preempt potential deflationary pressures.

This approach led Saxton to call for an interest rate cut at the September FOMC meeting, and immediately thereafter, to suggest an additional and unusual intermeeting interest rate cut. He also urged the Federal Reserve to reduce interest rates further at the November FOMC meeting.

Currently these market price indicators – commodity prices, bond yields, and the value of the dollar – do not show that a resurgence of inflation is in the pipeline. Instead, the general evidence provided by these indicators would be consistent with either a reduction in interest rates, or a pause to appraise the effects of the actions already taken.

"The reduction in interest rates by the Federal Reserve have been the key factor easing the fears of deflation in recent months, and this has stabilized international financial markets," Saxton said. "Chairman Alan Greenspan deserves great credit for leading the Federal Reserve so effectively during this critical period for the international economy. As critical as Greenspan's monetary policy has been in sustaining the U.S. expansion and addressing deflation fears, it cannot solve all the problems in the international economy."

"Now that monetary policy changes have been made, attention is needed in at least four other areas: tax incentives for continued U.S. growth; continued promotion of an open international investment and trade; further reform of the International Monetary Fund; and continued encouragement for Japan to stimulate its economy," Saxton said.

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