



CONGRESS OF THE UNITED STATES

# *JOINT ECONOMIC COMMITTEE*

VICE CHAIRMAN JIM SAXTON

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## PRESS RELEASE

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### FEDERAL RESERVE INFLATION TARGETING REFORM INTRODUCED

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WASHINGTON, D.C. – Inflation targeting by the Federal Reserve would be mandated by new legislation, H.R. 2547, introduced by Vice Chairman Jim Saxton. Inflation targeting has been used by many central banks around the world to guide monetary policy. Inflation targets are typically ranges of permissible increases in prices in a selected price index. For example, an inflation target could be set to permit increases of between 1 and 3 percent in the personal consumption expenditure (PCE) price index.

“Inflation targeting enjoys wide support among many monetary economists, and has been used successfully in many countries,” Saxton said. “In my opinion, recent Federal Reserve monetary policy has amounted to informal inflation targeting. However, the lack of defined inflation targets can contribute to uncertainty and even confusion about the direction of monetary policy.

“Over the last two decades, the Fed has done a very good job squeezing inflation out of the economy, thereby reducing interest rates, improving the operation of the market system, and providing a solid foundation for long-term economic growth. Now that inflation has been lowered to insignificant levels, there has been much discussion, within the Fed and elsewhere, about the potential for downward pressures on prices to undermine price stability.

“Although the dangers of deflation have been overstated by some, the current discussion of monetary policy and price stability would have been much clearer had inflation targets been defined in advance. Assuming that Fed policy will continue to maintain inflation at very low levels, the lower bound of permissible inflation will become an increasingly important consideration of monetary policy for many years to come. Adoption of inflation targets would define the minimal level of permissible price increases, and further promote transparency and credibility in monetary policy,” Saxton concluded.

For more information on inflation targeting and monetary policy, please visit our website at [www.house.gov/jec](http://www.house.gov/jec).

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