



CONGRESS OF THE UNITED STATES

JOINT ECONOMIC COMMITTEE

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Federal Reserve Should Consider Interest Rate Cut

WASHINGTON, DC -- Joint Economic Committee (JEC) Chairman Jim Saxton (R-NJ) called on the Federal Reserve to consider an interest rate cut at its February 3 and 4 meetings. Saxton notes that recent inflation data show no inflation threat, while the risks of potential deflation are growing.

Chairman Saxton's statement follows:

"I think the Fed should consider an interest rate cut immediately. The forward-looking inflation indicators used by the JEC suggest that there is little or no inflation. Commodity prices are falling, the dollar remains strong, and bond yields have fallen below 6.0 percent. The dollar is a world reserve currency, and its strength should be a focus of monetary policy in the context of the Asian financial crisis. In addition, the more conventional inflation measures -- CPI, PPI, and GDP deflator -- show no inflation threat.

"The achievement of price stability is a tremendous accomplishment of the Federal Reserve and one that has sustained healthy economic and employment growth. However, there is now a risk of potential future deflation. I agree that monetary policy should be pre-emptive and must be poised to head off future deflation, as well as inflation.

"The current outlook suggests that there are risks that disinflation may be proceeding too rapidly. The possibility of actual deflation is becoming less remote. A pre-emptive easing of interest rates in concert with other key central banks as insurance against deflation risk seems prudent at this time."

During the past year, Saxton has released a number of special studies in a series related to the Federal Reserve and monetary policy.

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