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VICE CHAIRMAN JIM SAXTON

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MONETARY POLICY SHOULD RETAIN FOCUS ON PRICE STABILITY, NOT ASSET PRICES

WASHINGTON, D.C.— Central banks should maintain their focus on price stability and generally not attempt to influence asset prices, according to a new study released today by Joint Economic Committee (JEC) Vice Chairman Jim Saxton. The new JEC study, *Monetary Policy and Asset Prices*, examines the arguments for and against monetary intervention to influence sharp asset price movements, including stock market "bubbles."

"Monetary policy has demonstrated a capability, given an appropriate institutional environment, to provide general price stability," Saxton said. "However, as this study points out, equity prices do not serve as reliable guides or indicators for monetary policy. Only in exceptional circumstances when rapid asset price movements threaten price stability should a monetary policy response be considered.

"In practice, as Chairman Greenspan has noted, it is difficult to know in a particular case whether a movement in asset prices constitutes a bubble. The greater volatility of equity prices even in normal circumstances makes them an unsuitable guide to monetary policy geared to long-term price stability. Furthermore, there is no reliable relationship between monetary policy and stock prices.

"In recent years, the Federal Reserve has drawn considerable criticism for failing to puncture the stock market bubble of the late 1990s soon enough. However, it will be recalled that an international financial crisis had spread rapidly in 1997 and 1998, threatening potential deflation, and the Fed responded appropriately by easing monetary policy in the autumn of 1998, thus stabilizing the situation. Fortunately, the Fed was not induced to tighten policy at this time by the long-running stock market boom," Saxton concluded.

For more information on the Federal Reserve and monetary policy, please visit our website at www.house.gov/jec.

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