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VICE CHAIRMAN JIM SAXTON

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SAXTON WARNS OF RISKS IN CURRENT FEDERAL RESERVE POLICY

WASHINGTON, D.C. – Current Federal Reserve policy runs the risk of raising interest rates too far, too fast, and significantly slowing the strong U.S. economy, Vice Chairman Jim Saxton of the Joint Economic Committee suggested in a letter to Fed Chairman Alan Greenspan released today. Saxton was reacting to Federal Reserve explanations of its recent interest rate hikes, which have led the financial markets to expect several more interest rate hikes.

"Some of the explanations offered by the Fed for its recent rate hikes seem to suggest that healthy economic growth and low unemployment are inflationary" Saxton said, explaining the reason for the letter. "The U.S. economy and labor markets do show strength, but as Chairman Greenspan and I have discussed many times, this strength need not lead to inflation. Rather, the anti-inflation policy of the Federal Reserve for many years has lowered interest rates and unemployment, and fostered the healthy economy we have today. The letter I am releasing today relates to my concerns about recent Fed policy and its rationale.

"Unfortunately, recent Federal Reserve justifications for raising short-term interest rates seem to lend credence to the nearly abandoned view that economic vitality is inflationary. As a long-time supporter of the Fed's anti-inflation policies, I am concerned about this shift in recent explanations of Federal Reserve policy. These explanations seem to have led many to expect continual interest rate increases until economic growth is significantly reduced. However, because of the lags and uncertainty in the impact of monetary policy, this approach may lead the Fed to inadvertently overtighten monetary policy and trigger a pronounced slowdown in the U.S. economy.

"Instead, a focus on price measures would provide a more accurate gauge of potential inflation. I agree that monetary policy must be preemptive, but these leading price indicators can signal an increase in potential inflation before it actually becomes a problem. I have the impression that the Fed looks at everything, including these price measures, but that these measures may not be as important to decision-making as they were a few years ago. A greater reliance on these leading market price indicators would reduce the downside risk of mistaken policy moves to the economy and provide better guidance for monetary policy adjustments," Saxton concluded.

The text of the letter from Saxton to Chairman Greenspan, as well as more information on the Federal Reserve and monetary policy, is available on our website at www.house.gov/jec.

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