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JOINT ECONOMIC COMMITTEE

VICE CHAIRMAN JIM SAXTON

PRESS RELEASE

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SAXTON REACTION TO FED RATE HIKE

WASHINGTON, D.C. – "The reduction of inflation and unemployment during this expansion is a remarkable achievement of Chairman Greenspan, making it more difficult to second-guess his decisions," Joint Economic Committee (JEC) Vice Chairman Jim Saxton said today. "As Chairman Greenspan and I recently discussed at the June 17th JEC hearing, price stability and control of inflation should be the primary Federal Reserve objective. Further, because of the lags in the impact of changes in monetary policy, pre-emptive action is often appropriate.

"Nonetheless, there continues to be little evidence of meaningful increases in trend inflation, and careful readings from forward-looking inflation indicators are mixed. Accordingly, I hope the rate increase announced today will be the last interest rate increase for now, given the lack of evidence of trend inflation.

"The Federal Reserve decision is really not too surprising in light of Chairman Greenspan's widely cited testimony before the JEC on June 17. One reason I invited Chairman Greenspan to testify on this occasion was to provide him an opportunity to explain his current thinking on monetary policy and the economy. The references in his testimony to asset prices, labor market tightness, and the stabilization of the international situation all suggested the possibility of an interest rate increase. I would also note that he acknowledged the lack of strong evidence of renewed inflation, and in past JEC hearings also has agreed strongly with my statements arguing that there is really no meaningful trade-off between inflation and unemployment, as posited in the Phillips curve.

"As the Federal Reserve's policy has proven, low inflation and low unemployment are not incompatible. Inflation and unemployment have fallen together since 1992. Those who believe that low unemployment causes inflation and vice versa have been proven wrong.

"Unfortunately, today the U.S. Treasury decided to release an IMF document urging U.S. authorities to slow the U.S. economy. Not only does the IMF document reflect its bias against tax relief and healthy economic growth, but the timing of the Treasury release certainly is inappropriate given the important FOMC meeting then underway," Saxton said.

Press interviews with Saxton regarding the FOMC decision can be arranged by contacting Jeff Sagnip at (202) 225-4765. For JEC studies and research on monetary policy and the Federal Reserve, please visit our website at www.house.gov/jec.

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