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JOINT ECONOMIC COMMITTEE

VICE CHAIRMAN JIM SAXTON

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BRAZILIAN MOVE TO INFLATION TARGETING WELCOMED

WASHINGTON, D.C. – The decision by the Brazilian Central Bank to adopt inflation targeting in monetary policy is a positive step that will improve the outlook for Brazilian recovery, Vice Chairman Jim Saxton of the Joint Economic Committee said today. The targeting of inflation within a predetermined range as a guide to monetary policy is already in use in many other countries.

“The Brazilian move to implement inflation targeting is encouraging because it will help the central bank bring inflation under control while strengthening the prospects for economic recovery,” Saxton said. “The reduction of inflation will also help stabilize the currency and bring interest rates down. Inflation targeting is an approach that has been successfully used by a number of nations around the world.

“In addition, the Brazilian decision may be a breakthrough that will lead others in the developing world to implement inflation targeting. While widely used in many advanced economies, inflation targeting also offers great benefits to countries with a history of inflation and currency instability. This approach cannot solve all of their economic problems, but it can offer stability in monetary policy where it is so often lacking.

“I am also hopeful that the United States will institutionalize the informal inflation targeting approach advanced by Chairman Alan Greenspan. During the course of this expansion, this Federal Reserve policy has reduced inflation, interest rates, and unemployment at the same time, fostering the exceptional economic expansion we all enjoy. The central role of inflation targeting in recent Federal Reserve policy is not as well understood as it might be,” Saxton observed.

Saxton has introduced legislation, H.R. 653, to institutionalize inflation targeting in the United States. The bill, the *Price Stability Act of 1999*, would require the Federal Reserve to establish price stability in the form of inflation targets.

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