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OPENING STATEMENT
CHAIRMAN JIM SAXTON (R-N.J.)
HEARING ON "THE ECONOMIC OUTLOOK AND MONETARY POLICY"

WASHINGTON, D.C. -- It gives me great pleasure to welcome Federal Reserve Chairman Alan Greenspan this morning before the Joint Economic Committee. Chairman Greenspan's testimony on the outlook for the economy and monetary policy comes at an important juncture in monetary policy.

As the most recent GDP and employment data suggest, the business cycle expansion that began in the second quarter of 1991 continues to produce economic and employment gains. The hard work of millions of workers and entrepreneurs across this nation has expanded the economy year after year. To the extent policy factors are relevant, monetary policy has been the main factor sustaining the economic expansion.

As the Federal Reserve gradually reduced inflation over the last six years, interest rates and the unemployment rate have both declined. The anti-inflationary monetary policy of the Federal Reserve has produced prosperity without inflation. The central error in postwar economic policy -- the notion of a tradeoff between inflation and unemployment -- has proven misleading during the last two business cycle expansions. Low inflation is a foundation of sustained economic and employment growth and it fosters lower, not higher, unemployment.

Credible disinflation tends to lower interest rates, reduce uncertainty premiums, stabilize financial markets and thereby bolster interest rate sensitive sectors of the economy. Lower inflation promotes efficient operation of the price system and, in many ways, works like a tax cut. All of these factors contribute to sustaining the economic expansion. Chairman Greenspan and the Federal Reserve deserve a great amount of credit for gradually reducing inflation and thereby promoting the many economic benefits that have resulted.

Nonetheless, I believe we must be vigilant about inflation, and monetary policy must pre-empt inflation before it emerges. Here at the Joint Economic Committee we monitor the usual broad measures of general inflation but also forward-looking indicators of inflation expectations such as commodity prices, bond yields, and the value of the dollar. Neither the conventional nor forward-looking inflation indicators justify a change in Federal Reserve policy at this time.

Reportedly, some policy-makers at the Federal Reserve have favored a rise in interest rates for some time. However, I think the Federal Reserve has been on the right course and I commend its leadership for charting the appropriate and prudent policy under uncertain conditions.

Overall, recent Federal Reserve policy has been very successful. Current Federal Reserve policy appears consistent with a policy of setting an inflation band of about zero to 2.5 percent. This approach has also been successfully adopted by a number of other central banks around the world.

This policy of inflation targeting would be institutionalized under a bill I have introduced as a foundation for future reform. The important accomplishments of the Federal Reserve under Chairman Greenspan would be locked in so that stable prices and low interest rates can be assured for future generations.

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