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VICE CHAIRMAN JIM SAXTON

PRESS RELEASE

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FEDERAL RESERVE POLICY KEEPS INFLATION LOW

— Informal Inflation Targeting Proves Successful —

WASHINGTON, D.C. – The continued success of Federal Reserve monetary policy is reflected in today’s release of data showing only a 0.1 percent increase in the core producer price index (PPI) in April, Joint Economic Committee (JEC) Vice Chairman Jim Saxton said. Core producer prices exclude the volatile energy and food components of the PPI. Overall, the PPI rose 0.5 percent last month.

“Today’s PPI release shows no evidence of building inflation pressures,” Saxton said. “The Federal Reserve’s policy of informally targeting inflation within a very low and narrow range continues to be an unqualified success.

“Specific policies fostering low inflation and economic growth have sustained this expansion. As Chairman Alan Greenspan and I discussed at a JEC hearing last year, informal inflation targeting has reduced inflation, interest rates, and unemployment all at the same time. This success of inflation targeting is the primary policy factor promoting the economic expansion. Chairman Greenspan deserves much credit for this approach to price stability.

“The results of inflation targeting demonstrate that the notion of a trade-off between inflation and unemployment is invalid. Moreover, Chairman Greenspan had the judgement to resist advocates of this Phillip’s curve trade-off who pressed for a tightening of monetary policy. Instead, Greenspan steered exactly the right course, cutting interest rates three times last year to head-off the potential of deflation and stabilize international financial markets.

“Unfortunately, America will not always benefit from such exceptional management of Federal Reserve policy. This is why I have introduced legislation (H.R. 653) to institutionalize the inflation targeting policies that have proven so successful,” Saxton concluded.

To review JEC studies on the Federal Reserve and inflation targeting, please visit the JEC website at www.house.gov/jec.

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