CONGRESS OF THE UNITED STATES

JOINT ECONOMIC COMMITTEE

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Inflation Doves In Confusion as Inflation and Unemployment Fall Together

-- New JEC Study Explains Errors of Inflationary Policies --

WASHINGTON, DC -- Today, **Joint Economic Committee (JEC) Chairman Jim Saxton** released a new study examining the arguments raised by those who think that some inflation is beneficial, and, therefore, are opposed to the objective of price stability. The JEC study, A Response to Criticisms of Price Stability, refutes the arguments offered by those who think toleration of moderate inflation can improve economic and employment growth, and lower unemployment. For much of the postwar period, policymakers have been guided by this mistaken notion that there is a tradeoff between inflation and unemployment known as the Phillips Curve.

"This study helps to explain why many are confused about the current economic situation of low inflation, healthy growth, and low unemployment occurring simultaneously," Saxton said. Noninflationary monetary policy has often been criticized for causing slow growth and higher unemployment, but as the study shows, reality and sound economics both demonstrate that low inflation is a basis for solid growth and lower unemployment. The explanation for the current situation is not as much a **'new economy'** as the new recognition of old truths about the costs and benefits of low inflation," he continued.

"Price stability is essential to economic growth. As this study clearly demonstrates, criticisms of this policy fail to stand up to scrutiny. The best way to end inflation is to prevent it in the first place," stated **Congressman Mark Sanford (R-SC).**

Specifically, the study describes recent criticisms of price stabilizing monetary policy and responds in detail to each criticism. The study, for example, shows that contrary to these criticisms;

- Price stabilizing monetary policy fosters economic stability, affording the flexibility to achieve both price stability and other goals;
- Inflation is not necessary to foster labor market adjustment and may work to remove existing wage flexibility; and
- A stable-price, low interest rate environment does not constrain monetary policy; central banks can pursue stimulative policy via a variety of channels under stable prices.

"As the primary goal of monetary policy, price stability remains the best approach to such policy," said Saxton. "Many of these criticisms suggest that 'a little bit' of inflation is good for the economy. However, the study shows that the benefits of price stability far outweigh its costs," Saxton concluded.

Congressman Tom Ewing (R-IL) endorsed the study by stating, "I strongly support the concept of price stability as the principal policy objective for Federal Reserve monetary policy. This study released by the JEC highlights the fact that price stability, rather than inflationary policies, is the cornerstone for economic growth."

Saxton recently introduced an important bill, **the Price Stability Act of 1997 (H.R. 2360)**, mandating price stability as the primary goal of monetary policy. The bill mandates the use of inflation targets or "bands" by the Federal Reserve to implement the price stability objective.

This study, one in a series of JEC reports on monetary policy released under Saxton's direction, supports and complements several previous studies related to inflation targeting for monetary policy. Copies of these studies are available from the JEC by calling 202/224-5171 or viewing our website at http://www.house.gov/jec/.

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