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CHAIRMAN JIM SAXTON

PRESS RELEASE

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FURTHER RELAXATION OF FED TIGHTNESS URGED

- SHARP RATE CUT NEEDED NOW -

WASHINGTON, D.C – A sharp cut in short term interest rates by the Federal Reserve is needed to further unwind its overly tight monetary policy, incoming Chairman Jim Saxton of the Joint Economic Committee said today. While supportive of the thrust of Federal Reserve policy for many years, last spring Saxton warned of the dangers of over-tightening monetary policy given the lack of significant inflation and the potential for an economic slowdown.

"I believe that the Fed will do the right thing and sharply cut short-term interest rates," Saxton said. "Current information on inflation and the economy clearly indicates that monetary policy was tightened too much during 1999 and 2000. Several unanticipated economic surprises have recently emerged, and the Fed is right to react to these factors by changing its monetary policy.

"Over the years I have supported the Fed's approach of informal inflation targeting, an approach that has served the national exceedingly well. Chairman Greenspan deserves much credit for adopting this approach, which has reduced inflation and interest rates and created unprecedented economic prosperity.

"However, this approach to informal inflation targeting must be guided by forward-looking intermediate economic indicators focusing, for example, on price measures such as commodity prices, long term interest rates, and the foreign exchange value of the dollar. It seems to me that there may be others on the Board who rely excessively on indicators related to tight labor market and potential economic growth. Chairman Greenspan in the past has been correct to resist such analyses in support of higher interest rates. This approach apparently was a source of the last round of tightening, which clearly went too far. Chairman Greenspan, to his credit, signaled a needed change in course in an unusual inter-meeting interest rate reduction last January 3.

"Last spring, in a letter to Chairman Greenspan, I warned that a monetary policy guided by concerns about tight labor markets and excessive economic growth could lead to an unexpected slowdown, which now appears to be underway. I would expect the Fed to move quickly to adjust its monetary policy to reflect the lack of inflation now or in the pipeline.

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