



CONGRESS OF THE UNITED STATES

JOINT ECONOMIC COMMITTEE

CHAIRMAN JIM SAXTON

PRESS RELEASE

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FED INTER-MEETING INTEREST RATE CUT PRAISED -- Market Price Indicators Signal No Inflation Threat --

WASHINGTON, D.C. – The Federal Reserve’s unusual inter-meeting interest rate cut of 50 basis points was supported today by incoming Joint Economic Committee (JEC) Chairman Jim Saxton. In recent weeks Saxton had called for a speedy and significant inter-meeting Fed interest rate cut. While supportive of the Fed’s informal inflation targeting framework, Saxton has expressed concerns about the tightness of Fed policy since last year.

“The Fed’s rate cut today reduces the tightness in monetary policy and will improve the future prospects for economic growth,” Saxton said. “The economic slowdown underway since the middle of last year has been partially caused by Fed tightness, and this policy has now been modified. I hope the spreading deterioration in economic conditions will be contained and that a renewal of healthy economic growth will resume in due course.

“The Fed’s actions are appropriate given the lack of potential inflation in the pipeline. The forward-looking market price indicators used by the JEC -- commodity prices, long-term interest rates, and the foreign exchange value of the dollar -- together continue to signal no danger of inflationary pressures in the foreseeable future. I only wish the Fed had acted sooner to adjust monetary policy, and had focused even more on the market price indicators.

“In the past year I have been critical of the Fed for relying too heavily on measures related to labor markets and output to guide monetary policy. However, in fairness to the Fed, it should also be noted that the severe energy problems and the stock market meltdown were not easily foreseeable last year, and that these factors have complicated the execution of monetary policy. The fact remains that Chairman Greenspan’s policy of informal inflation targeting has been a tremendous overall success, and it laid the groundwork for one of the most robust economic expansions in U.S. history,” Saxton concluded.

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