PRESS RELEASE

INFLATION TARGETING WOULD IMPROVE FED TRANSPARENCY FOR MORE THAN A CONSIDERABLE PERIOD

Washington, D.C. – The intense scrutiny given to every word and nuance in the Fed's monetary policy announcement would not be necessary if the Fed moved toward a more transparent framework of inflation targets, Vice Chairman Jim Saxton said today. Inflation targets set a permissible range for future inflation as an objective of central bank monetary policy, and are successfully used by many central banks around the world.

"In recent months, there has been a great deal of discussion over whether the term "considerable period" should continue to define the timeframe of the Fed's policy of low interest rates," Saxton said.   "Indeed, there has been debate over whether the application of this term to future monetary policy was even a good idea in the first place. Part of the reason for this controversy and lack of transparency is the absence of a clear frame of reference for monetary policy. The conceptual commitment to price stability is clear, but no one outside the Fed knows exactly what this means in terms of the implementation of monetary policy.

"Under inflation targets, an objective framework for evaluating monetary policy statements and decisions would be in place, and this would contribute to an improvement of transparency. Thus adoption of inflation targeting would help reduce uncertainty and potential confusion about the stance of monetary policy. This increase in transparency is one reason I have introduced legislation, H.R. 2547, to encourage the adoption of inflation targets by the Federal Reserve," Saxton concluded.

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