Opening Statement of
Vice Chairman Kevin Brady
"Monetary Policy Going Forward:
Why a Sound Dollar Boosts Growth and Employment"
Before the Joint Economic Committee
March 27, 2012

Today's hearing seeks to determine what role the Federal Reserve should play going forward to ensure that the United States has the world's strongest economy in the 21st century.

A sound dollar is a necessary prerequisite for maximizing economic growth and job opportunities for hardworking American taxpayers. This proposition is both simple and profound.

A sound dollar requires that the Federal Reserve preserve the purchasing power of the dollar over time. Price stability reduces uncertainty and encourages entrepreneurs to make investments in new buildings, equipment, and software and hire more workers. And price stability is especially important for struggling families each time they buy groceries or fill their tanks with gasoline.

Both inflation and deflation slow growth and destroy jobs. For hardworking taxpayers, a decline in the dollar's purchasing power is the same as a cut in pay.

Today's hearing will explore how the Federal Reserve should achieve a sound dollar. In 1977, Congress gave the Fed a dual mandate for maintaining price stability and maximizing output and employment.

Nobel Laureate economist Robert Mundell observed: To achieve a policy outcome, you must use the right policy lever. In January, the Fed recognized that monetary policy is the right lever to maintain the purchasing power of the dollar by declaring, "The inflation rate over the longer run is primarily determined by monetary policy."

In contrast, the Fed acknowledged that monetary policy is the wrong lever to promote job creation by declaring "[t]he maximum level of employment is largely determined by nonmonetary factors." During the 1970s, the Fed tried to use monetary policy to stimulate job creation, and the United States ended up with both higher inflation and higher unemployment.

Critics charge that eliminating the dual mandate means we don't care about jobs. They are wrong; the opposite is true. It is precisely because we care about growth and jobs that Congress should direct the Fed to preserve the purchasing power of the dollar. Monetary policy cannot stimulate employment except for short, temporary spurts. However, monetary policy can achieve price stability, which is the foundation for creating the greatest number of jobs that last.

During the 1980s and 1990s, the Fed moved toward a rules-based policy by ignoring the employment half of its mandate to pursue price stability. Two long booms resulted, with very low inflation and strong job creation and rising real incomes.

Then, between 2002 and 2005, the Fed deviated from this successful rules-based regime by keeping interest rates too low for too long. This contributed to the inflation of an unsustainable housing bubble that eventually triggered a global financial crisis.

Since the height of the financial crisis during the fall of 2008, Washington has increasingly relied on the Fed to take unusual, interventionist actions such as tripling the size of its balance sheet under QE1 and QE2. Indeed, the Fed justified these extraordinary actions by invoking—for the first time ever in late 2008—the employment half of the Federal Reserve's dual mandate.

It appears that the Fed took these actions to compensate for President Obama's failure to pursue pro-growth budget, tax and regulatory policies. Just as low borrowing costs are masking the pain of historically high federal budget deficits, the Fed's monetary experimentation allows the White House and Congress to shirk their responsibility for creating a competitive business climate.

It is time to reform the Federal Reserve for the 21st century with a single mandate for price stability achieved through inflation-targeting. In January, the Fed announced an inflation target of 2% defined in terms of the price index for personal consumption expenditures. I applaud this step toward a rules-based, inflation-targeting regime, but I hope that 2% is the upper limit of the range.

Accurately measuring inflation is not easy. In the last decade, we clearly saw that price indices of goods and services do not always record all of the price movements in our economy, allowing asset bubbles to inflate undetected. To identify incipient asset bubbles before they inflate to dangerous levels, the Fed should also monitor: (1) the prices of, and returns on, broad classes of assets including: equities, corporate bonds, state and local government bonds, agricultural real estate, commercial and industrial real estate, and residential real estate; (2) the price of gold; and (3) the foreign exchange value of the U.S. dollar.

On March 8th, I introduced the *Sound Dollar Act* in the House. The *Sound Dollar Act* reforms the Fed in several important ways. The *Sound Dollar Act* replaces the dual mandate with a single mandate for long-term price stability; increases the Fed's accountability and openness; expands and diversifies the voting membership of the Federal Open Market Committee; ensures credit neutrality for future Fed purchases; and institutes necessary congressional oversight of the Consumer Financial Protection Bureau.

These reforms are critical to ensuring that America has the world's strongest economy in the 21st century. Moving to a single mandate for price stability will help to spur investment and create millions of new jobs on Main Streets across America.

I look forward to the testimony of our distinguished witnesses.