



CONGRESS OF THE UNITED STATES

# JOINT ECONOMIC COMMITTEE

CHAIRMAN JIM SAXTON

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## PRESS RELEASE

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## INFLATION TARGETS WORK TO LOWER LONG-TERM INTEREST RATES

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**WASHINGTON, D.C.** – The inflation targeting policy used by many central banks around the world maintains low inflation, increases financial market stability, and reduces risk, all factors that tend to lower interest rates, according to a new study released today by Chairman Jim Saxton of the Joint Economic Committee (JEC). The new JEC study, *Economic Effects of Inflation Targeting*, examines the empirical evidence on the impact of inflation targeting as it has been implemented in a number of countries. Inflation targets typically define a range of acceptable increases in a broad inflation measure such as a core price index.

“This new JEC study examines the evidence on both sides of the issue, and finds that inflation targeting provides significant economic benefits to countries that adopt it,” Saxton said. “Low inflation and greater financial stability help to reduce interest rates, and may explain why current long-term interest rates are relatively low.

“Although the Fed has not officially embraced explicit inflation targets, it seems to have an inflation comfort zone as measured by the core Personal Consumption Expenditure (PCE) price index. In recent years, increases in the PCE have fluctuated around the one to two percent range, keeping inflation and long-term interest rates quite low. Although long-term interest rates have edged up recently, they are still relatively low for expansion periods.

“I agree with those who have argued that the Fed is using a flexible approach similar to informal inflation targeting. This approach has produced low inflation and low interest rates in the U.S., and helps explain the positive trend in economic growth in the last two decades,” Saxton concluded.

For a copy of the new study, *Economic Effects of Inflation Targeting*, please visit the committee website at [www.house.gov/jec/](http://www.house.gov/jec/)

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