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JOINT ECONOMIC COMMITTEE

CONGRESSMAN JIM SAXTON

PRESS RELEASE

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FEDERAL RESERVE POLICY APPEARS ON TRACK

– Low Inflation with Low Unemployment –

WASHINGTON, D.C. – Federal Reserve policy remains on track and continues to produce low inflation, low interest rates and low unemployment rates all at the same time, Congressman Jim Saxton of the Joint Economic Committee (JEC) said today. With no real signs of sustained inflationary pressures or heightened inflationary expectations, the Federal Reserve has no reason to change its stance of neutrality with regard to interest rates at the Federal Open Market Committee (FOMC) meeting tomorrow.

“The continued low levels of inflation, interest rates, and unemployment show that Federal Reserve policy remains on target,” Saxton said. “The JEC’s review of forward-looking inflation indicators shows that there are few signs of future inflation or expected inflation in the pipeline. Without evidence of a threat of current or future inflation, there is no reason for the Federal Reserve to tighten now.

“Last year, I called for interest rate cuts not only before the September and November FOMC meetings, but also for an unusual inter-meeting interest rate cut. In reviewing much of the same information, the Federal Reserve took appropriate actions needed to forestall the potential threat of deflation. Chairman Alan Greenspan’s leadership of the Federal Reserve through some very difficult times has been exceptional.

“The thrust of the Fed’s noninflationary policy has fostered the economic expansion. As Chairman Greenspan acknowledged before the JEC at a hearing last year, the Fed’s policy has essentially been one of informal inflation targeting, the same general approach used successfully by a number of other central banks. Under this approach, the central bank targets inflation within a narrow and low range, for example, of 0-2.5 percent annually.

“The current economic environment is an ideal one in which to institutionalize this inflation targeting policy into law and lock-in the economic gains it has produced. In his testimony before the JEC last year, Chairman Greenspan was supportive of legislating the use of inflation targets, and support for this reform also has been expressed by many Federal Reserve officials. Based on the research of the JEC, I recently introduced the *Price Stability Act of 1999*, a bill mandating the use of inflation targets by the Federal Reserve. This legislation would provide a way to extend the many economic benefits of low inflation to future generations of Americans,” Saxton said.

For more information on the Federal Reserve and inflation targeting, please visit the JEC website at <http://www.house.gov/jec/>.

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