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THE PRICE STABILITY ACT OF 2008

RETURNING THE FEDERAL RESERVE'S FOCUS TO SOUND MONEY

THE DUAL-MANDATE PROBLEM

The Federal Reserve's legislative mandate, established in *The Humphrey-Hawkins Full Employment Act of 1978*, directs it to focus on two goals that are often at odds: short-term economic growth *and* long-run price stability.

Over the past few months, the dangers of this dual mandate have become apparent: as the Fed has slashed interest rates to lessen the short-term pain of the economic slowdown, its actions have spurred skyrocketing food and energy prices, and a sharp decline in the value of the dollar. The resulting inflation is eroding the value of Americans' paychecks and savings, and the dollar's collapse is causing global financial instability and threatening the greenback's status as the world's reserve currency.

THE PRICE STABILITY ACT OF 2008

By virtue of its control of monetary policy, the Fed is the *only* institution that can guarantee long-run price stability – a necessary precondition of sustainable economic growth, job creation and prosperity. *The Price Stability Act of 2008* will repeal *Humphrey Hawkins* and make price stability the Fed's sole mandate.

Under this legislation, Congress will direct the Fed to come up with a numerical definition of price stability, and to maintain a monetary policy that meets this objective. The Fed will have discretion in both defining price stability, and determining the process by which it meets that goal, and it must continue to appear before Congress, semi-annually, to report on its success or failure in this effort.

Importantly, this legislation does *not* restrict the Fed from providing liquidity to markets in times of financial market strain (as has occurred recently), nor would it undermine its important role as lender of last resort. One policy framework that would be consistent with this legislation is inflation targeting, which has been implemented with success in other countries and has received the support of Fed policymakers, including Chairman Bernanke.

KEY BENEFITS

- ▶ This legislation will **protect the Fed from political pressure** to be the “savior” of the economy, and from the short-term temptation to please Wall Street. It would re-focus the Fed's policy efforts on the one thing it can actually achieve over the long-term: price stability.
- ▶ A focused and clear mandate will **increase the Fed's transparency, accountability and credibility**.
- ▶ A firm commitment to price stability from the Fed will **help stop the dollar's decline**, and strengthen confidence in its value.
- ▶ This legislation will **boost consumer confidence**, as average Americans are reassured the value of their paychecks won't continue to be eroded by inflation. The measure would also help protect the value of Seniors' hard-earned retirement savings.
- ▶ Unlike other ideas brewing in Washington to “stimulate” the economy through more government spending and higher deficits, this legislation **incurs no budgetary cost**.