

SHADOW OPEN MARKET COMMITTEE

News Release

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WASHINGTON, DC- The Shadow Open Market Committee (SOMC) today called current monetary policy “inconsistent with maintaining price stability. The Federal Reserve should end its policy of accommodation and begin raising its federal funds rate target,” the SOMC said at its semiannual meeting.

According to the SOMC, “the last six months have reinforced the view that economic growth has substantial momentum. Common measures of inflation have accelerated, pushing the real federal funds rate more negative.”

As economic activity continues to grow rapidly, the 1 percent federal funds rate would be associated with rapid money growth that would generate accelerating nominal spending and rising inflationary pressures.

“Nobody knows the level of the federal funds rate consistent with a neutral monetary policy....But that neutral real rate is clearly not negative,” said the SOMC’s statement.

The SOMC stated that the Fed’s efforts to be transparent have been hampered by its failure clearly to spell out its long-run objective. The group again urged the Fed to adopt an explicit inflation target.

The SOMC again recommended changes in the regulatory process that governs Fannie Mae and Freddie Mac, including transferring supervisory control of these government sponsored enterprises to the U.S. Treasury, removing their implicit and explicit subsidies and raising their capital requirements. The SOMC stated that ultimately the GSEs should be privatized.

The SOMC also commented on Chinese exchange rates and monetary policy. It argued that the Chinese central bank’s monetary policy of pegging its currency to the U.S. dollar is contributing to a rising and potentially disruptive inflation. While urging that China should pursue policies of free trade and international capital flows, the SOMC emphasized that U.S. policymakers should avoid recommendations for Chinese monetary policy that stem from U.S. protectionist sentiment, including urging China to float its currency, the Renminbi.

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Shadow Open Market Committee Web Site:
<http://www.somc.rochester.edu>