WASHINGTON, DC- The pace of economic recovery has been restrained by ongoing adjustments to the 1990s, uncertainties relating to the accounting scandals, and threat of war, but the Federal Reserve’s monetary policy is incapable of mitigating these factors, according to the Shadow Open Market Committee (SOMC).

The SOMC argued at its semiannual meeting today that “the Fed should articulate clearly to the public its objectives and rationale for its policy actions.”

The SOMC applauds the Fed’s successful efforts to reduce inflation but advocates “a more systematic approach to monetary policy.” The SOMC released the first in a new series of monetary policy indicators and the performance of two policy rules, one a federal funds rate rule (the Taylor Rule) and the other a rule for monetary base growth developed by SOMC member Bennett McCallum.

Currently the rules provide mixed messages: The Taylor rule suggests the Fed should be raising interest rates, while the McCallum rule suggests faster monetary base growth may be appropriate. “However, neither rule offers a justification for the recent 50 basis point lowering of the federal funds rate.”

In a comparison of the U.S. and Japan, the SOMC asserts that, “similarities are misleading.” The U.S. will not endure a Japan-style economic slump and faces mild inflation, not deflation.

Regarding fiscal policy the SOMC urges elimination of the double taxation of corporate dividends and the provision of incentives to personal saving. “This would eliminate a major source of economic inefficiency and elicit a healthy improvement in corporate finance.”

In analyzing continuing problems in Argentina and Brazil, the SOMC argues that, “instead of addiction to borrowing, Argentina and Brazil need to learn to live within their means and without the IMF crutch.”

The SOMC identified the heightened risks and inefficiencies generated by the government’s subsidies of Fannie Mae and Freddie Mac and recommended that these GSEs be privatized. Such a change would not adversely affect mortgage finance liquidity, the committee said.

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