

SHADOW OPEN MARKET COMMITTEE
News Release
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<p>HOLD FOR RELEASE UNTIL 11 A.M., November 10, 2003 Contacts: Charles Plosser (585) 275-3316, Anna Schwartz (212) 817-7957</p>

WASHINGTON, DC- The Shadow Open Market Committee (SOMC) expressed concern that “the Federal Reserve’s lack of a clear objective is causing increasing volatility and uncertainty in the real economy....With inflation low, the Fed now seems to lack a focus,” the committee said at its semiannual meeting.

In response to the rising confusion, the SOMC recommended that the Federal Reserve:

- Adopt a clear public statement of its primary objective, the control of inflation;
- Announce a specific target for inflation, with a goal of 1 percent CPI inflation; and
- Announce a policy process that it will follow consistent with this objective.

According to the SOMC, the monetary base should grow approximately 5 percent per year to achieve this long-run objective of 1 percent inflation.

The SOMC argued that the Federal Reserve’s “current concerns about deflation are overblown.” The SOMC said that in numerous episodes in the US and overseas mild deflation was associated with strong real economic growth, and that the Great Depression was the exception, not the rule.

The SOMC viewed economic performance as strengthening, noting, “employment is expected to continue to rise with further growth in consumer spending and product demand.”

The current global imbalances reflect in part the relative attractiveness of US investment opportunities. The SOMC emphasized that protectionist measures that erect barriers to trade in response to the large trade deficit are wrong-headed and must be rejected.

The SOMC also expressed concern about the charters of Fannie Mae and Freddie Mac, whose implicit government guarantees expose US taxpayers to unforeseen losses and could lead to severe financial market disruption. The SOMC said, “merely shifting their supervision to the Treasury Department does not resolve the issues, particularly if the Treasury is unable to raise the GSEs’ capital requirements.” The SOMC concluded that the two financial concerns should be privatized and regulated similarly to other competing financial institutions.

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

