

SHADOW OPEN MARKET COMMITTEE
News Release
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HOLD FOR RELEASE UNTIL 11 A.M., November 15, 2004 Contacts: Charles Plosser (585) 275-3316, Anna Schwartz (212) 817-7957

WASHINGTON, DC—The Shadow Open Market Committee (SOMC) today applauded the Federal Reserve’s success in maintaining stable, low inflation and encouraged the Fed to continue raising rates to remove its monetary accommodation.

At its semi-annual meeting, the committee complimented Fed Chairman Alan Greenspan’s leadership in reducing inflation and making the Fed more transparent but repeated its earlier recommendation that the Fed “adopt a clear public statement of its primary objective to control inflation,” and “announce a policy process and guidelines consistent with this objective. Having an explicit inflation target in no way requires that the Fed be concerned only with inflation.”

While noting the strength in economic performance, the SOMC argued that federal finances are deteriorating and require immediate and significant reform. Under current law, spending on Social Security and Medicare grow too large, become increasingly burdensome on workers’ incomes and are unsustainable.

The committee emphasized that fiscal reforms should involve pragmatic changes that reduce the government’s long-run benefit obligations and inefficiencies in order to stimulate economic growth. “Programmatic changes must replace political rhetoric about fiscal responsibility,” the committee said, encouraging the President to use political capital “to curb the growth in government spending and to reform mandatory entitlement programs.” It emphasized that raising taxes to close estimated long-run financing gaps would slow growth and lower standards of living.

“Pro-growth tax reform should focus on reduced tax burdens on savings and capital while eliminating distortions and complexities in the tax code,” according to the SOMC.

The SOMC also urged the Bush Administration to take a stronger stand in support of free trade. It noted that “protectionist measures and government subsidies will not save industries that are unable to compete with lower cost providers.”

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