

SOMC POLICY STATEMENT SUMMARY

March 8, 1999

WASHINGTON, DC—The rapid money growth in the last year is inconsistent with price stability, the Shadow Open Market Committee said today, and it urged the Federal Reserve to move promptly to slow growth of monetary aggregates. Domestic demand continues strong, the SOMC said.

The Committee urged the Federal Reserve to end its delay. “The longer the Federal Reserve delays, the larger will be the losses in output and employment.” The Federal Reserve “will have to be uncharacteristically adept to avoid both recession and higher inflation,” the Committee said.

The Committee, which meets semiannually, praised President Clinton for opening discussion of Social Security but criticized the administration’s Social Security plan and its budget proposals.

“President Clinton’s budget is an outrageous and misleading document,” the Committee said. “It takes advantage of a surge in tax receipts to propose spending 38 percent of the projected surplus. It promises to fix Medicare while increasing the scope of the program, adding new benefits and increasing costs. It promises to save Social Security by using general revenues, but it does nothing to change its receipts or spending. It provides tax subsidies that would reintroduce burdensome complication to an overburdened tax system. Congress should reject the President’s program. It should retain the spending caps.”

The Committee also criticized recent proposals by German and French finance ministries to restrict exchange rate adjustment of the Euro to the dollar and the yen. These proposals raise doubts whether the principal European governments understand Europe’s problems, the Committee said.

The Committee welcomed Japanese initiatives to end deflation by increasing money growth even if the yen depreciates.