

**SHADOW OPEN MARKET COMMITTEE
News Release**

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WASHINGTON, DC – “Since January 2001 the Federal Reserve’s aggressive actions to counter decelerating economic growth suggest that it has lost sight of its long-run inflation objective of price stability,” stated the Shadow Open Market Committee (SOMC) at its semi-annual meeting today.

In the first quarter of 2001, while real Gross Domestic Product (GDP) grew 2 percent annualized, inflation crept above 3 percent. The SOMC urged the Fed to avoid monetary over-management: “The costs of rising inflation far exceed the illusory benefits of attempts to fine-tune the economy.”

The SOMC noted that in each recent announcement of the Federal Open Market Committee’s (FOMC’s) decision to cut interest rates the Fed’s focus has changed, referring alternatively to the stock market, the information technology (IT) sector, business investment, consumer confidence, and the California electricity crisis. Along with its recent inter-meeting rate cuts this jeopardizes the Fed’s hard-won credibility.

The SOMC recommended that the Fed hold a 3 to 5 percent steady growth of the monetary base. While recent base growth is within this range, the rapid acceleration in the other monetary aggregates highlights the need for the Fed to pay particular attention to the aggregates.

The SOMC reaffirmed the economic rationale for a tax cut. While noting that arguments for a tax cut to stimulate aggregate demand are “convenient politically,” they are not economically compelling. Rather, “the true case for tax cuts is based on the long-run benefits of improved economic growth and improving on our economic future.”

The SOMC noted that excessively restrictive monetary policy in Japan has contributed to its stagnant economy and recent deflationary conditions. The SOMC encouraged the bank of Japan to aggressively pursue its most recent policy objectives of growing bank reserves until a target inflation of 1 to 2 percent is achieved.

Moreover, according to the SOMC, “the Bank of Japan should resolve not to tighten policy in order to support the yen, should it begin to depreciate.”

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