

SHADOW OPEN MARKET COMMITTEE
News Release
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WASHINGTON, DC At its semiannual meeting today the Shadow Open Market Committee (SOMC) stated that while the tremendous shock of September 11 and resulting concerns over national security were causing significant short-run disruptions to consumer and business spending, “the fundamentals of the economy remain sound. We believe that the economic impact of the disaster will be relatively short-lived.”

According to the SOMC, “the Federal Reserve responded swiftly and appropriately to the short-term challenges to the financial and payment systems.”

However, the initial crisis is over, the committee said, and it urged monetary and fiscal policymakers now to respond with policies that are consistent with long-run national priorities, while avoiding quick fixes that may be wasteful or harmful to long-run economic performance.

More aggressive monetary stimulus is not likely to jump-start the economy in the short run, and, according to the SOMC, the Federal Reserve must eventually tighten monetary policy to remove risks of higher inflation in the long run.

The SOMC noted that “fighting the war on terrorism will necessitate sustained increases in Federal expenditures, primarily related to defense and national security,” and the “resulting disappearance of the budget surplus in 2002 is a natural and appropriate consequence of the economic slowdown and war.”

The SOMC cautioned against fiscal stimulus initiatives involving temporary spending increases or tax cuts of the type that have a history of ineffectiveness. Instead it recommended permanent tax cuts and shifting more of the country’s resources to national security.

The SOMC noted the worsening of the Japanese economy and repeated its recommendation of last April that the Bank of Japan inject more liquidity into the Japanese financial system primarily by purchases of foreign exchange.

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