What's It Like on the FOMC?

Eight times per year, the Federal Open Market Committee (FOMC) meets in Washington, D.C., to discuss the most appropriate path for monetary policy. The FOMC is made up of the Board of Governors (which currently has five members), the president of the New York Fed, and four other Reserve Bank presidents on a rotating basis. In 2015, it's my turn again to serve as a voting member of the FOMC — a responsibility that is especially important as the Committee determines when to raise interest rates in response to the outlook for inflation and growth.

For two decades after the Fed's founding in 1913, the regional Reserve Banks retained some autonomy in conducting open market operations. The system worked fairly well until the Great Depression, when Banks began disagreeing about policy and in some cases refused to cooperate with each other. This failure of coordination contributed to the creation in 1933 of the FOMC, whose decisions would be binding on all Reserve Banks. The current structure of the FOMC was established by the Banking Act of 1935, with the goal of enabling the committee to effectively set monetary policy for the nation as a whole while remaining aware of regional conditions.

Regardless of voting status, all 12 Reserve Bank presidents participate fully in the deliberations at every FOMC meeting. (In Fed parlance, all the presidents and governors are FOMC participants, while those who are voting in a given year are designated FOMC members.) The meetings typically begin with a presentation by a New York Fed official about developments in financial markets, followed by presentations from senior staff at the Board of Governors about their economic and financial forecasts. Then each president and governor shares his or her economic outlook, which is the result of extensive research and preparation. Following that economic "go-round," the Board's director of monetary affairs discusses various policy options, and there is a policy go-round in which all the participants share their views about the most appropriate policy. The final step is the vote.

Here in Richmond, we continually follow evolving economic conditions, but preparations begin in earnest about three weeks before the meeting. The Bank's economists and I identify several topics of special interest, and the economists then prepare research reports. The week before the FOMC meeting, we meet for half a day to discuss their findings, as well as national and regional economic conditions. The next day, a smaller group meets to discuss specific monetary policy alternatives and refine our Bank's perspective.

While this process varies from Bank to Bank, every president has a team of economists and analysts to help him or her prepare for FOMC. As a result, we bring diverse analytical perspectives to the table in Washington, which makes for a rich and informed discussion. It also means that we learn a great deal from our colleagues. My role at an FOMC meeting is not only to articulate my view on policy but also to listen to my colleagues and engage in give-and-take that improves our understanding of the challenging questions we face.

I will never forget the first time I attended an FOMC meeting as president of the Richmond Fed. Consistent with longstanding custom for new presidents, I was greeted at the door to the ornate boardroom by the committee's assistant secretary and shown to my assigned seat, even though I knew it quite well from having often accompanied my predecessor to meetings. Early in the meeting, I recall looking around the room and becoming acutely aware of the millions of people outside that room who would be affected by our decisions. That immense sense of responsibility remains with me to this day.

My colleagues on the FOMC share that sense of responsibility, but that doesn't mean we always agree about the best course of action. In part, that's because monetary policymaking in real time is no easy task. The sources of uncertainty are numerous; many data are available only with a lag and are subject to later revisions, making it difficult to assess the current state of the economy. It also can be hard to judge whether a given event will have transitory or lasting effects, and thus whether or not that event justifies a change in policy. Add to this uncertainty the fact that committee participants may adopt different analytical frameworks that affect how empirical evidence is interpreted, and it's clear why our views sometimes diverge.

But the strength of the FOMC is that it ensures a wide range of perspectives are brought to bear. And even when we disagree, we respect the integrity of our colleagues' views — and know that we all take seriously our responsibility to the American people. **EF**

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