

MIDWEST JOURNALIST SEMINAR  
FEDERAL RESERVE BANK OF CHICAGO

Chicago, Illinois  
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**I. Introduction**

- A. Good afternoon and thank you again for joining us today.
- B. I know you've had a heavy day of tours and briefings, so I think it's time to give you a little break from the facts and figures.
- C. What I'd like to do is wrap it all up with what you and your colleagues in the media refer to as "a little bit of color" regarding the role of the Chicago Fed in setting monetary policy.
- D. I've noticed that the two set pieces that all Fed-watching journalists seem to have on their assignment sheet are the pre-FOMC meeting story and the post-FOMC meeting story. The former predicts what you think we'll do, and the latter analyzes what you think we've done.
- E. With that in mind, I thought it'd be useful to do the same thing for you.
  - 1. First, I'll give you a little flavor of what we do to prepare for each FOMC meeting.
  - 2. Second, I'll take you with me to an FOMC meeting, giving you a taste of what goes on there.
- F. Before we do so, let's set the stage.

## II. Monetary Policy/FOMC Prep

- A. You've heard about a lot of Fed functions today, but our most important by far is monetary policy.
  - 1. Ask most Americans, and they'll say interest rates are set by Alan Greenspan in Washington, D.C.
  - 2. They miss the fact that monetary policy actually is developed by real people making economic decisions based on their own experiences and perceptions.
- B. Why is that? Well, monetary policy requires looking to the future. If we change monetary policy today it won't affect the economy for many months. That means we need to project what the economy will be doing.
  - 1. Our main tools for doing this are statistical data and econometric models. But even the best data are available only on a lagged basis.
  - 2. In other words, if we relied only on published data it'd be like looking in the rearview mirror to try to figure out what's on the horizon.
- C. All this means is that we need to reach out to those "real people" in America who are making economic and business decisions based on their own perceptions of the future. That's how we supplement statistical data with up-to-date information.
- D. The process is somewhat similar to how you prepare for a story. Like you, I need a diverse group of knowledgeable, reliable sources to get the real story.
  - 1. That's one reason why the FOMC is made up of people from inside and outside the beltway.
  - 2. The 12 Fed Bank Presidents help to provide the complete story, enabling the Fed to accomplish its mission.
- E. All of the presidents have a number of sources.
  - 1. In the Seventh District, we have two boards of directors – the Chicago Bank Board and the Detroit Branch Board. Each board has an interesting mix of people who live and work throughout the Midwest.
  - 2. Our current boards include representatives from retail, trucking, the auto and steel industries, real estate, banking, and a community group.
  - 3. The different backgrounds of the directors help ensure that each one contributes a unique viewpoint.

- F. A major responsibility of the boards is to report on economic conditions in the District and to help us understand current conditions and the future outlook.
  - 1. Before coming to a board meeting, some directors make their own round of calls to contacts within the District.
  - 2. Others report in specific terms on the industries in which they participate.
  - 3. In addition, the Chicago board recommends a discount rate to the Federal Reserve Board of Governors every two weeks as required by law.
  
- G. Another important source of anecdotal information is the Bank's advisory councils.
  - 1. The Advisory Council on Agriculture, Labor and Small Business is one of our best sources on issues affecting rural areas, labor markets and smaller firms.
  - 2. Similarly, our new Community Bank Council gives us the views of community banks and thrifts within the district.
  
- H. We're also able to tap into the resources of the great universities in the Seventh District.
  - 1. We have regular meetings with groups of academic economists to hear their views and policy recommendations.
  - 2. In addition, Curt Hunter meets every month with our Chicago Economists' Group –a group of business and bank economists who present reports on where they see the economy going. And our Research staff hosts regular meetings of our Chicago Industrial Roundtable and our Midwest Economists Group.
  
- I. I also spend quite a bit of time travelling throughout the Seventh District to meet with local business, community, and government leaders. This gives me a chance to get a first-hand look at what's happening in the region.
  
- J. Why do we have this elaborate process of briefings, soundings, meetings and contacts? Why not just track the published statistical data and go from there?
  - 1. Again, it's because we need to look ahead.
  - 2. And the best way to do that is to go beyond the published statistics with the help of our sources.
  - 3. Now back to the FOMC and what we do to get there.
  
- K. While all of this information gathering is going on, we continue to prepare in other ways for the next FOMC meeting.
  - 1. There are 8 FOMC meetings each year. Two are two-day meetings, which are held prior to Chairman Greenspan's semi-annual Humphrey-Hawkins testimony before Congress.
  - 2. Our last meeting was of the two-day variety, held on June 30th and July 1st.

3. The next meeting will take place in about a month on Tuesday, August 18th.
- L. I should point out that I'm not a voting member of the FOMC this year.
1. As you know, the seven Governors are permanent members and always vote.
  2. Since open market operations are carried out at the Federal Reserve Bank of New York, the president of the New York Fed is a permanent voting member and by tradition has been elected to serve as vice chair of the FOMC.
  3. Nine other presidents vote every third year. And the President of the Cleveland Fed and I each vote every other year.
  4. Regardless of whether I'm voting or not, my process of preparing for the FOMC is exactly the same. So, back to the process.
- M. About a month before the FOMC meeting, our economic research team already has begun their meetings, brainstorming and exploring issues related to our next meeting.
1. We also have begun to prepare our contribution to the Beige Book, cleverly named for obvious reasons. (Hold up Beige Book.) I should add that the only thing "beige" about this book is its cover.
  2. As you know, it's a report on regional economic conditions in each of the 12 Fed districts.
  3. Preparing the Beige Book involves a lot of phone calls by Research staff to their contacts throughout the Midwest. The next Beige Book will be released on August 5th.
- N. About two weeks before the FOMC meeting, around the first of August, I'll begin to make a more intensive round of calls to sources throughout the district.
1. I'll make at least a dozen calls, sometimes more, to representatives of various industries here in the district – paper, manufacturing, power, retail, transportation, financial services, human resources, and others.
  2. I'll spend roughly 20 to 30 minutes with each.
- O. What do I learn from these sources? About what you would expect based on your experience with sources. Except my sources won't see their names in the paper, and they never have to worry about confidentiality.
- P. I can, however, withhold names and give you a few examples.
1. Contacts in the auto industry will tell me about dealer sales, inventories, or their internal cost indices. They might address their production plans for the next quarter, or their estimates of overall industry sales.
  2. If I talk to members of the steel or electronics industries, I might hear about exports from Asia or new domestic capacity coming on stream and their anticipated effects on pricing.

3. A contact from the trucking industry might predict what kind of Christmas season retailers are expecting based on their deliveries.
  4. Overall, these sources provide an excellent view of what to expect in the weeks and months ahead, based on today's conditions.
- Q. The week before the FOMC meeting – August 10th for the next one — our economic research briefings begin to intensify.
1. Our research team gets together to begin working on our forecast and synthesizing the input we've all received from throughout the district.
  2. Our economists contact various business firms and industrial associations to obtain input and forecasts on a regular basis.
- R. On Tuesday of the week preceding the meeting – August 11 – the “black out” period begins for me.
1. You guessed it, it's “black” because of the sadness that comes of not speaking to reporters for a week.
  2. Seriously, from August 11th until the Friday following the meeting, I won't be able to talk publicly about the economic outlook or current monetary policy, so don't even think about asking me.
- S. By late Thursday or early Friday, the Green Book arrives. (Hold up dummy green book.) It's named not for the color of money, but for another reason that evades me just now.
1. Anyway, the Green Book is a detailed, 100-page report on the national economy and the outlook from the Federal Reserve Board staff.
  2. The first section contains the staff's outlook. It's categorized as “Class II,” which means it's distributed only to a small group of people here at the Bank.
  3. The second section is the detailed report on the economy. This section is classified as “Class III,” meaning it's distributed to a slightly larger number of individuals on a need-to-know basis.
- T. The Friday before the FOMC meeting, I get together with Research staff to discuss the Green Book and the Chicago Fed's outlook.
- U. On Saturday, the Blue Book arrives. (Hold up dummy Blue Book) You may have heard about the Blue Book.
1. It's “Class I” — the most confidential document— which means that only I and six others in the Bank may see it.
  2. The Blue Book contains the Board staff's analysis of money and credit behavior, bank reserves, and interest rates.

3. It also contains the policy options – often three possible approaches for monetary policy and how they might affect the economy. The three approaches are known as Alternatives A, B, and C.
4. As with the Green Book, we analyze the Blue Book to see if it corresponds with our views.
- V. On Monday morning I get together with a small group of our economists who have clearance to see the Blue Book and analyze the forecast and the policy options developed by Board staff.
- W. That brings us to Monday, which is my departure day for Washington, D.C. All Presidents arrive the afternoon or evening before the meeting, just to ensure that we're not sitting on the tarmac at JFK or O'Hare when the meeting begins at 9:00 a.m. on Tuesday morning.

### III. FOMC Meeting

- A. I promised you some color. We've already talked about Green, Blue, and Beige Books—not to mention blackouts—but what I'd like to do is give you some color on the actual FOMC meeting. So off we go to the meeting.
- B. What's the first thing you notice when you walk in the Fed Board room for the first time?
  1. What caught my eye was the huge table. It's nearly 30 feet long and more than 10 feet at its widest point, and weighs about 2 and one-half tons.
  2. There are about 25 chairs around the table, with another 50 or so around the sides of the room.
  3. And then I noticed the pictures on the wall – of what else? Currency.
  4. You'll be pleased to know that the room recently was remodeled and equipped with the very latest audio-visual gear.
  5. Tradition lives on, though. So far most people have avoided the new equipment and continue to rely on paper handouts.
- C. Promptly at 9 a.m., the Chairman enters the room from his office, and takes his seat at the head of the table.
  1. To his right...the Deputy Secretary of the FOMC.
  2. To his left...the Vice Chair of the Board, Alice Rivlin.
  3. Remember, this is just the seating, and in no way reflects the political leanings of the participants. But I digress.
  4. To the right of the deputy secretary is Bill McDonough, the President of the New York Fed.
  5. Following down both sides of the table from there are the other Governors, in order of seniority, and then the presidents of the regional banks, in no apparent order.

6. I'm on Vice Chair Rivlin's side of the table, just past the bend in the table.
  7. The names of each of the Board members are on their chairs, but the Fed Presidents are expected to remember their own seats...and names.
  8. Six members of the Board senior staff and New York Fed staff sit at the end of the table.
  9. There are also additional staff from the Board and the Open Market Desk that sit in a second row of chairs on each side of the room.
  10. Each president brings one staff member, who also sits in the back row. Curt typically comes with me to the meeting.
  11. There's a total of about 50 people in the room, all Fed officials and staff. Only those at the table speak. All of the presidents take part in the discussion regardless of their voting status.
- D. The Chairman opens the meeting.
1. We begin, like any other committee, by approving the minutes of the last meeting and any modifications.
  2. The press and public will see these minutes two days later, on Thursday, when they're made public.
- E. The second order of business is a report from the Manager of the System Open Market Account at the New York Fed.
1. He'll report on financial and foreign exchange developments, open market operations, and any foreign exchange intervention that occurred since the last meeting.
  2. We vote to ratify the open market operations and foreign exchange intervention, and move on to a report from the Board's Director of Research and Statistics.
- F. He makes a brief presentation of the Board staff's forecast – information contained in the Green Book.
1. This forecast is compiled by a group of about 25 staff members.
  2. We've already seen the forecast. Now we have an opportunity to ask questions about it.
  3. Those who wish to ask a question simply catch the eye of the Committee's deputy secretary, with a wink, nod, or wave of the hand.
  4. The deputy secretary records the order of the winks and nods, and questioners are called on in turn.
- G. As is often the case, questions can provide an effective means of making statements. Sometimes you can learn where a member is headed on the basis of his or her question.

- H. It's not unusual for a meeting to also include a special presentation on a topic such as the foreign exchange markets.
- I. We then begin the core of the meeting with what is called the "First Go-round." The Presidents usually speak first. This is our opportunity to present information related to developments in our region and what we're hearing from America.
  - 1. Each president will speak for about five minutes and discuss the national and regional economy, with a special emphasis on certain topics.
  - 2. For example, the comments of the Dallas Fed President may include developments related to Mexico; Atlanta's President might touch on tourism; many Presidents will cover retail or housing; and my comments nearly always include the auto and steel industries.
  - 3. We also give an assessment of the national economy and reactions to the Board staff forecast, if appropriate.
- I. Sometimes our contacts provide a telling detail that illustrates a trend. As you might guess, many of our contacts have highlighted the tight labor markets in the Seventh District.
  - 1. At one FOMC meeting I passed on information from a source who said that even his temporary help firm was using temporary help.
  - 2. Another contact, a labor union leader, said that a temporary help firm actually approached striking workers on the picket line to recruit them for temporary work assignments.
- J. On other occasions, I've reported on more mixed soundings.
  - 1. When the stock markets experienced some volatility last fall, I wanted to know if the market was affecting consumer spending.
  - 2. I talked to three of my contacts – one reported that sales actually had improved; one saw no noticeable impact; and the third attributed a sales decline to the stock market.
- K. After the presidents finish, the Governors will present their views on the national economic situation and pass on information obtained from their contacts.
  - 1. All the participants have done their homework and are very familiar with the statistics. So the presentations are anecdotal and generally contain information acquired just before the meeting.
  - 2. We give our views of the national and regional economic outlooks, emphasizing any points where we may disagree with the Board staff's outlook.
  - 3. This is our best opportunity to set up any points we may want to make in the second go-around. It also gives Chairman Greenspan an opportunity to gauge where the members are headed.
- L. The next portion of the meeting focuses on policy options.

1. First, the Board's Director of Monetary Affairs, gives a presentation on the options contained in the Blue Book.
  2. Then we come to the most important part of the meeting—the second go-round.
- M. During this go-round, participants discuss policy options using the alternatives in the Blue Book as a starting point.
1. Participants will state whether they favor alternative A,B,or C, or a course somewhere in between, such as "A-" or "B+."
  2. Although the presidents help provide a regional perspective, their views on policy are based on what's best for the national economy.
  3. In this go-round, Chairman Greenspan is the first speaker. This gives him an opportunity to set the stage for the rest of the discussion by indicating his position. Often Chairman Greenspan will present new data or a new idea that supports his position.
  4. Each member then has a chance to give his or her view in response to the Chairman's recommendation.
- N. If there's a clear consensus, the Chairman may summarize the views and suggest a possible course of action. If not, there may be a general discussion led by the Chairman that continues until a consensus emerges.
1. Once there's a consensus, a directive is written that reflects the Committee's decision.
  2. The directive is used by the New York Fed's trading desk as a guide in its open market operations until the next FOMC meeting.
  3. Of course, the FOMC can hold a conference call if there's a need to make a policy change before the next meeting.
- P. Next comes the vote.
1. The Chairman votes first.
  2. Then the Vice Chair.
  3. The other voting members of the FOMC are then polled in alphabetical order.
  4. This is the first time that the non-voting presidents are treated differently than those voting.
  5. If there's a change in policy, it's announced in a brief statement to the media at about 2:15 Eastern Time.
  6. If there's no change, a Fed spokesperson will announce that the meeting has ended and that there will not be any statement.

Q. Once the meeting concludes, we head back to our respective districts.

1. When Curt and I get back to Chicago we debrief the Research staff that have Class I clearance and suggest some issues they could study for the next meeting.
2. So, it's truly a continuous cycle of preparation.

#### IV. Conclusion

A. That in a nutshell, is the FOMC process.

1. It's inclusive, reaching out to the wide range of sources and expertise; it's deliberative, directed towards forming a consensus; and it's insulated from the day-to-day political pressures that too often accompany an inside-the-beltway function.
2. We think it's a pretty effective system, and it's one that other nations have used as a model for their own central bank systems.

B. I hope this bit of color will help to round out your stories in the future, and I would be happy to take any questions – short of what's in my blue or green books. If you tread on that territory, I reserve the right to declare a momentary black out.

C. Thank you.