



The FOMC



Introduction

- ❖ Institutional Details
- ❖ Typical Meeting
- ❖ Meeting on January 30 & 31, 1996
- ❖ Key Public Policy Issues



Institutional Details

❖ Composition

- 7 Governors
- New York Fed president
- A president from each of the following groups:
 - * Boston, Philadelphia, Richmond
 - * Cleveland, Chicago
 - * Atlanta, Dallas, St. Louis
 - * Minneapolis, Kansas City, San Francisco

COMBINATION OF PUBLIC OFFICIALS AND PRIVATE CITIZENS - HAS CAUSED SOME TO RAISE QUESTIONS OF ACCOUNTABILITY

IMPORTANT INSTITUTIONAL SAFEGUARD w/ RESPECT TO INDEPENDENCE OF MONETARY POLICY MAKING PROCESS



Institutional Details

❖ Role

- Direct open-market operations of Reserve Banks

❖ Meetings

- Regular - 8 times per year in Washington
- Other - upon the call of Fed Chairman or at request of any 3 members

OTHER MEETINGS IN WHICH I HAVE PARTICIPATED HAVE ALL BEEN TELEPHONIC CONFERENCE CALLS

INSTITUTIONAL ADAPTATION AS FINANCIAL MARKETS IN U.S. BECAME MORE INTEGRATED

NY FED EXECUTES TRANSACTIONS AND "HOLDS" SECURITIES ON BEHALF OF ALL 12 RESERVE BANKS

ALL IN PRES FULLY PARTICIPATE
 WHETHER VOTING OR NOT - FLY ON
 WALL COULD NOT TELL VOTERS THE END
 POSITIONS ARE NOT LINED UP IN ADVANCE
 CHAIRMAN'S JOB IS TO IDENTIFY/LEAD
 CONSENSUS



Typical Meeting

my DISSENTS IN SUMMER '86
 AG & J PAV

- ❖ Approval of minutes
- ❖ Report of manager for foreign and domestic operations
 - Approval of transactions
- ❖ Staff economic briefing
- ❖ Committee discussion of economy
- ❖ Staff policy briefing
- ❖ Committee discussion of policy options
- ❖ Vote on directive (IN MINUTES)
- ❖ Press release (SEE COPY FROM 1/30 + 31 MTA)

(SEE COPY FROM 3/26 MTA;
 THE MTA WILL
 BE RELEASED - 7/5)



Meeting on January 30 & 31, 1996

- ❖ Action taken
 - discount rate cut 25 basis points to 5 percent
 - full amount allowed to show through to reserve market, resulting in Fed Funds rate of 5 1/4 percent
- ❖ Basis of action
 - moderating economic expansion, reduced potential inflationary pressures
 - price and cost trends already subdued
- ❖ Subsequent developments

LIMITED DATA
 DECREASE OF
 GOVT SHUTDOWNS
 DISTORTIONS BASED
 ON SEVERE
 WEATHER

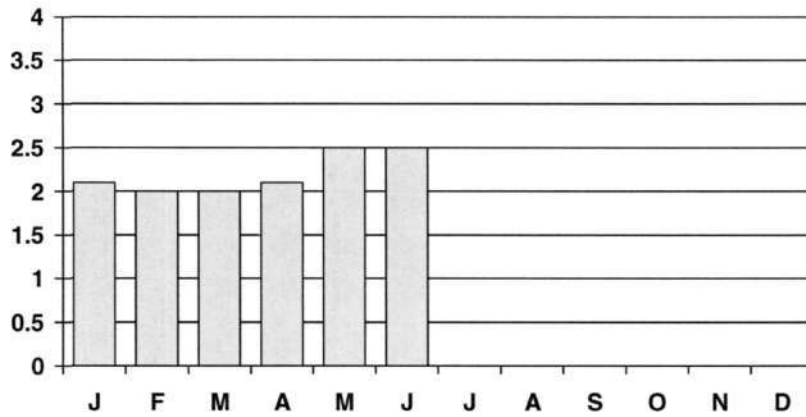
- STRENGTHENING REAL GROWTH
- RISING INFLATION EXPECTATIONS
- HIGHER LONG-TERM INTEREST RATES

- DIFFICULTY OF FORECASTING ACCURATELY
- INABILITY TO CONTROL INTEREST RATES

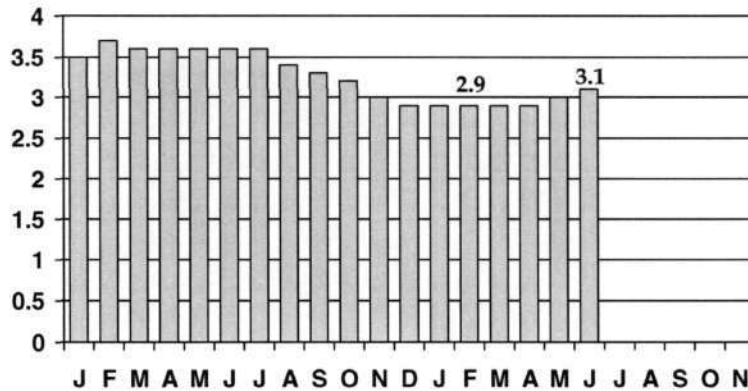
40 APR
 BLUE
 CHIP
 1.5
 2.8A
 2.3R



Blue Chip GDP Forecasts for 1996



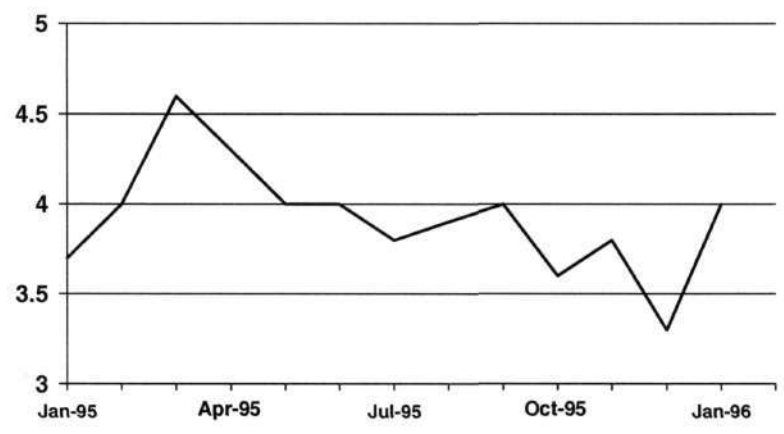
Blue Chip CPI Forecasts for 1996



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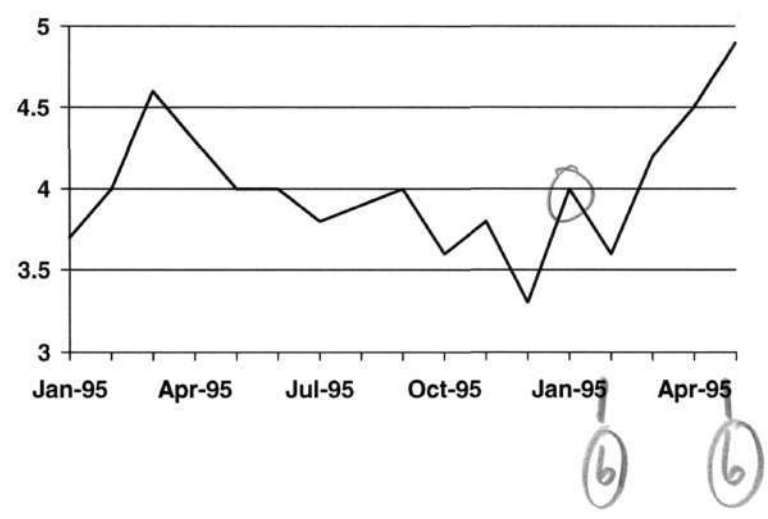


*Michigan Mean Inflation Expectations
Before January 30-31, 1996 Meeting*



*Michigan Mean Inflation Expectations
After January 30-31, 1996 Meeting*

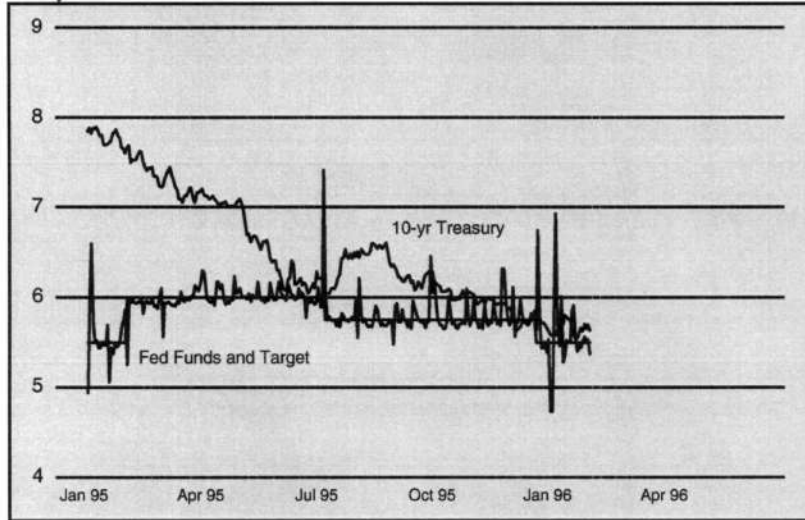
(1 yr.)





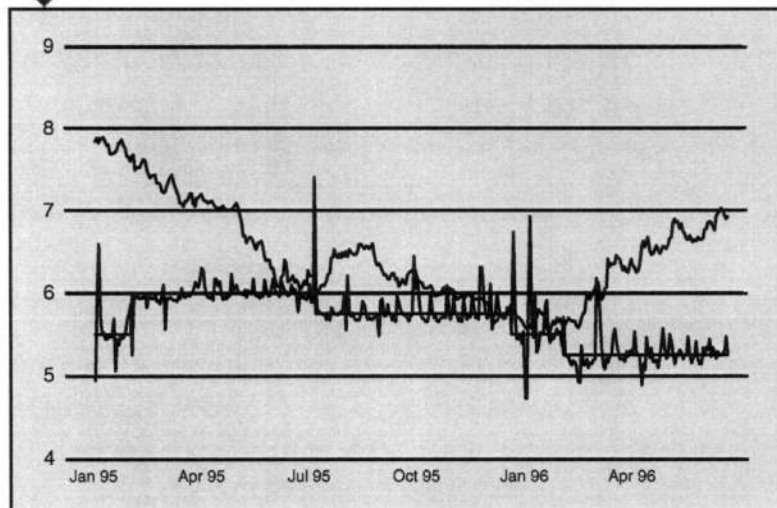
Interest Rates

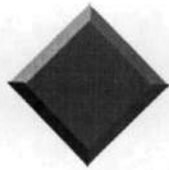
Before January 30-31, 1996 Meeting



Interest Rates

After January 30-31, 1996 Meeting





Key Public Policy Issues

- ❖ Appropriates objective(s) of monetary policy: price stability, short-run fine tuning, or both
- ❖ Accountability of committee and individual members
- ❖ Openness ability to deliberate versus disclosure

of real economy

long-run

IN LONG RUN, ONLY INFLUENCE INFLATION

CAN TEMPORARILY INFLUENCE REAL, BUT CANNOT FORECAST WELL ENOUGH OR UNDERSTAND IMPACT OF POLICY ACTIONS TO SUCCESSFULLY PURSUE SOLE OBJECTIVE SHOULD BE PRICE STABILITY - BACKUP FOR MAX SUSTAIN GROWTH

NEED CLEARER OBJECTIVE TO HOLD COMMITTEE ACCOUNTABLE

DON'T HAVE TO BE POLITICALLY APPOINTED TO BE INDIVIDUALLY ACCOUNTABLE

FIVE MEMBERS APPOINTED DIFFERENTLY BUT HAVE SAME ACCOUNT. TO PUBLIC

FOMC DISCLOSES A LOT: PRESS RELEASE ON ACTIONS MINUTES W/ 6-8 WEEK DELAY TRANSCRIPT W/ 1 YR DELAY