CHAPTER THREE, APPENDIX 3.C: FOMC MEETING STRUCTURE

The Federal Reserve System consists of the Board of Governors in Washington and the 12 Federal Reserve Banks (whose districts cover the whole of the United States). Board members (governors) are appointed by the President and confirmed by the Senate. Governors may serve only one full-term (14 years) but they may serve the latter part of a partial term (as a replacement for an earlier appointee) and then a full term. The President designates one of the seven governors to be chairman (of the Federal Reserve Board of Governors and the FOMC) for a four year term (renewable within the limits of their term as a governor) and another to be vice chairman of the Federal Reserve Board of Governors. Both designations are confirmed by the Senate. Reserve Bank presidents are appointed by their boards of directors subject to confirmation by the Board of Governors.

The FOMC is the monetary policy body of the Federal Reserve System. It has 12 voting members, the seven governors and five of the reserve bank presidents. One of the five presidents, the President of the Federal Reserve Bank of New York is a permanent voting member, and vice chairman of the FOMC. The other 11 presidents take up the remaining four voting positions on a rotating basis (the order of rotation is designed to ensure a fairly even geographical spread of voting presidents). In the absence of one of the four rotating voting presidents, an alternate president from one of the other reserve banks would take their place (but for the New York Bank, the First Vice President of that bank would stand in). All the Presidents attend every FOMC meeting, participate fully in the debate and signal their intention on the policy action (the voting members vote after this).

The FOMC meets eight times a year (roughly every six weeks). Meetings are for the most part devoted to the immediate decision on monetary policy – in our analysis of the transcripts we have included only this element of meetings. The monetary policy discussion has over the period we examine taken a fairly unchanging order in terms of the sections of the discussion. It started with (1) a report on domestic and international market operations by the manager of the Open Market “Desk” at the Federal Reserve Bank of New York. The desk is the operational arm of the FOMC, implementing decisions by buying and selling US government securities in open markets operations (OMOs). This report was followed by questions for members of the FOMC.

The next section of the meeting (3) involved each member of the FOMC providing an assessment of the news on the state of the economy during the inter-meeting period. Bank presidents almost always began by describing the state of the economy in their district (typically illustrating this with information they have picked up from contacts in their district) and then commenting on the state of the national economy. As governors do not have districts, their remarks were confined to the state of the national economy. Section 3 thus has two components: (a) the state of the regional economies, and (b) the state of the national economy. The Chairman did not contribute to this section of the meeting (other than to act as chair).
Next came (4) the so-called policy go-around where all members concluded by expressing their preferences on the policy stance. This section began with a senior staff economist pulling together the conclusions of the earlier discussions and indicating the most likely options for the policy setting (typically presenting two options) and how these could be interpreted to be consistent with the news in the inter-meeting period (typically one of these options would be for policy to stay the same while the other one would be for the target measure to move one way or the other). The Chairman then gave his interpretation of what the news on the state of the economy meant for the economic outlook. He concluded by indicating his preference for the policy setting. Alan Greenspan always set out his preference before other members spoke, but for other chairmen the pattern was not so regular.

An important element of the FOMC meeting structure is whether the chairman declared his preference first. Meyer (Meyer 2004) comments that by not participating in the state of the economy session, but going first in the policy go-around, the chairman has the final word on the outlook and the first word on the policy decision, thus making it easier for him to build a consensus around his own position. After the chairman, all the other members outlined the major policy considerations that they saw and their preferred policy stance. In many meetings, the preferred policy stance of the FOMC was obvious at the end of this process, but it is noticeable that in the Miller period the chairman undertook a bargaining process at this point in the meeting in order to try to build as large a majority for his preferred position as possible.

Finally the secretary of the FOMC called the roll of voting members who vote on the text of a policy directive that instructed the desk at the New York Fed.

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1 “Inter-meeting period” is one of the important terms in the language of the FOMC, reflecting the way in which monetary policy is set in an incremental fashion – i.e. taking the incremental news and assessing the impact of that against the baseline of the FOMC’s previous view.

The Greenbook is delivered to FOMC members towards the end of the week before the FOMC meeting. Bank Presidents typically have their own forecast prepared for their participation in the FOMC by their staff.

2 Bank presidents begin this section of the meeting but within the section the order is not fixed (Meyer 2004: 39) describes the order as following the “wink” system – as each member indicated their desire to speak.

3 These two options do not come as a surprise to members – they have been circulated before the meeting in the Bluebook.