Preface

In the United States and many other countries, monetary policy decisions are made by committees. Committees' policy choices reflect the preferences of their members as well as the institutional arrangements that govern the aggregation of individual preferences into collective choices. In this book, we examine the monetary policy preferences of members of the Federal Reserve's Federal Open Market Committee (FOMC) and the process by which its members' preferences are translated into policy decisions. In the context of an academic literature that often presupposes the existence of a single policymaker who maximizes a well-defined objective function, our focus on individual preferences and group decisions is unusual and, in some respects, unique. We believe that this perspective is important for understanding the evolution of monetary policy choices.

The book is primarily intended for professional economists and political scientists. Much of our attention is devoted to methodology, both in the collection of data and in its analysis. Nevertheless, the book is broadly readable; anyone interested in the topics we address will find that large portions of the book are accessible. This is particularly true of chapters 9 and 10, which present material that is primarily anecdotal. Although the book is not intended as a text, it could be used as a supplement for courses in monetary theory and policy or political economics.

Our work on topics covered in this book dates back to 1988, when Henry Chappell spent a sabbatical as a visiting scholar at the University of North Carolina at Chapel Hill. Thomas Havrilesky of Duke University presented a seminar there on FOMC voting patterns that eventually led to a collaborative project; Chappell and Havrilesky were joined by Rob Roy McGregor, then a PhD student at the University of South Carolina. Our early work used FOMC voting data to estimate monetary policy reaction functions (empirical relations linking desired policy settings to prevailing economic conditions) that differed across individual members of the FOMC. We also used those reaction functions to investigate the importance of political pressures on the committee. Chapter 4 of this book updates and extends research that uses dissent voting data in this way.

Because dissenting votes occur infrequently, formal voting records provide limited information about the preferences of FOMC members. In the early 1990s, we began to investigate more detailed information about members' preferences derived from the *Memoranda of Discussion* (detailed summaries of deliberations for meetings held up to March 1976) and the *FOMC Transcripts* (edited transcripts available for meetings held after March 1976). Havrilesky's untimely death in 1995 came as we were completing our first paper making use of the *Memoranda*. This book greatly benefits from his contributions to that research.

As we collected data to describe the policy preferences of FOMC members, we became more optimistic about how those data might be used. We became convinced that it would be possible to assemble data sets describing desired interest rate settings for each member of the FOMC in each of a sequence of meetings. With such a data set, it would then be possible to investigate how individual preferences were mapped into committee choices. Todd Vermilyea, then a PhD student at the University of South Carolina, joined us in the mid-1990s as we began the effort to assemble the data for this purpose. Chapters 5 through 8 of this book are a direct result of that data collection effort and the econometric analysis that followed.

As we read documents describing FOMC deliberations, we also became aware of the richness of their anecdotal content. Many professional economists, students of economics, and others concerned with monetary policy are interested in how the FOMC makes its decisions, but most will never read the *Memoranda* or the *Transcripts*. Our book provides some flavor of the anecdotal content of these sources in adopting "narrative" approaches to investigate political influences on the FOMC (chapter 9) and the relevance of the time inconsistency problem for explaining the "Great Inflation" (chapter 10).

Many people have assisted us during our work on this book, but we are particularly indebted to the late Thomas M. Havrilesky. In addition, we would like to acknowledge helpful comments from individuals who have read portions of the book or our published articles from which the book is derived. In particular, we wish to thank William

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Several chapters of this book are derived from previously published articles and include material excerpted from those articles. Portions of chapter 4 are drawn from Chappell and McGregor (2000); chapter 7 is based on Chappell, McGregor, and Vermilyea (2004); and chapter 10 is based on Chappell and McGregor (2004). Permission to reprint excerpts from these articles was granted by the *Southern Economic Journal* (Allen Press), *Economics and Politics* (Blackwell Publishers), and the *Journal of Money, Credit, and Banking* (Ohio State University Press).

The views expressed in this book are those of the authors and do not necessarily represent the views of the Federal Reserve Bank of Philadelphia or the Federal Reserve System.