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Come With Me to the F.O.M.C.: A Sneak Peak Into Fed Life

By [Bob McTeer](#)



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Today is the second day of a two-day [Federal Open Market Committee](#) meeting. The rate decision along with the accompanying verbiage will be released at 2:15 p.m. If I were still there, I'd go in with a tentative idea of how I would vote, but would try to keep an open mind during the presentations and discussions. Today, I would be inclined toward a half percentage point cut, from 1.50 to 1.00 percent.

I don't think another rate cut is necessary nor even very helpful, but not cutting would roil financial markets, and the European Central Bank needs more pressure to catch up with another coordinated cut. I called for a coordinated rate cut on my other blog on Oct. 7, and they [took me up on it](#) on Oct. 8, between regular meetings. Coincidence?

One might argue that another Fed cut without being matched by the E.C.B. would weaken the dollar, but, given its rapid rise lately, I don't think that would be a bad outcome. A too-sharp rise in the dollar would hurt the growth of our net exports, which has been our strongest sector.

Without a strong conviction, I would be inclined to go along with the chairman's majority even if our views differed. Dissents should be used sparingly and only when they are a matter of strong conviction. Also, it's important to support the chairman and present a united front during a crisis.

"Come With Me to the F.O.M.C." was the title of a Richmond Fed pamphlet written long ago and updated by others. Its lasting popularity suggests an interest in what goes on behind the closed doors. While I've been retired from the Fed almost four years, it changes so slowly that I expect my memories aren't far off.

**Some F.O.M.C. Color**

My almost 14 years as an F.O.M.C. member came with the presidency of the Federal Reserve Bank of Dallas from Feb. 1, 1991, to Nov. 4, 2004. Alan Greenspan was chairman during that time and then-Governor Bernanke sat next to me for almost three years. Reserve Bank presidents inherit their place around the table from their predecessors, and Dallas used to sit between St. Louis and Boston. For the first several years of my tenure, Alan Greenspan sat at the head of the long board table, but he announced one day that he was switching to the middle spot. That was a landmark event. We all rotated to keep our relative position, and I got the chairman's former seat.

Since Chairman Greenspan didn't normally conduct policy by the seat of his pants, as his successor has been accused of doing, his seat never made me feel smarter. The president of the Boston Fed decided about that time to move to the other end of the table — I don't know what I did — so I ended up between Bill Poole of the St. Louis Fed and Governor Bernanke, the only two principals around the table with beards. Ben's was trimmed pretty short, but Bill's was kind of shaggy. It made my nose itch when I looked his way.

Two-day meetings like the one concluding today used to occur only twice a year — in February and July. Chairman Bernanke added more two-day meetings to the schedule. The July meeting was close to the Fourth, and the British ambassador always had us as dinner guests on the evening between meetings. Those dinners were nice, but they ran on too long. The vice chairman, Alice Rivlin, was the all-time champion at extricating us before midnight. The dialogue during the dinner between the chairman and the ambassador was an education for me — actually for us all — but I'm probably the only one to admit it.

Congress centralized power in Washington in the 1930s, and gave the coveted (in central bank world) title of governor to the seven-member Washington contingent and “demoted” the twelve former regional governors to “president.” It also reduced the number of “presidents” voting from 12 to 5 so Washington would have a 7 to 5 advantage if votes ever split along those lines. The New York Fed president, as vice chairman of the F.O.M.C., always has a vote; 4 of the other 11 regional bank presidents also have a vote, based on an annual rotation.

I mention the voting arrangement because it is often misunderstood. All the presidents participate fully in all the discussions, and an observer would be unable to tell the voters from the nonvoters until the vote at the end of the meeting. A persuasive nonvoting president would probably have more influence on the outcome than a non-persuasive voter.

F.O.M.C. members traditionally don't discuss their votes or policy before the meeting. If the presidents got together for dinner the night before, they limited their discussion to Reserve Bank business and gossip. Usually they went their separate ways for dinner. Being the introvert that I am, I frequently had take-out Chinese food in my hotel room.

Everyone arrives for the meetings after having done tons of homework. The Reserve Banks have excellent research departments, but they are smaller and less specialized than the board's research staff. The presidents are expected to say something about their regions, as well as the national and international economy. It's a lot like cramming for finals. The board staff's material, mostly contained in the “green book,” included all recent data in context, forecasts

made under alternative assumptions, and special topics of current interest. It was always comprehensive and outstanding in quality.

The board staff also prepared a “blue book” with alternative policy choices and commentary. Forecasts based on the board’s econometric models were treated respectfully by everyone, but with a few grains of salt.

I once committed political incorrectness by not treating them respectfully enough. It was sometime during the boom of the late 1990s that I observed out loud that the staff’s growth forecast was usually a percentage point too low and that its inflation forecast was usually a percentage point too high. I announced that I derived my own forecast by moving that one percent from inflation to growth. The obvious truth of my statement only made it worse and added to the coolness of the breeze that came my way for some time after that.

The forecasts of high inflation, while actual inflation remained low, were the cause of my lone dissents in June and August 1999 against raising the target federal funds rate. Actual inflation was nil, but the models always had it right around the corner.

I probably made things worse by saying in speeches that my favorite economists were Yogi Berra and Richard Pryor: Yogi, for saying you can observe a lot just by watching, and Richard for famously asking, “Who are you going to believe — me or your own lying eyes?” Sometimes, I would also paraphrase Mae West and say “too much of a good thing is just about right,” referring, of course, to the booming economy.

These days, I’ll bet F.O.M.C. members really can’t believe their own lying eyes.