A 50-Year Retrospective on the Shadow Open Market Committee and Its Role in Monetary Policy: Panel on the Influences of the SOMC and Others Outside the Fed

Remarks by Esther George, October 14, 2024

Thank you to the organizers of this event for inviting me to participate in this 50th anniversary program. For many years, I have appreciated the engagement and exchange of diverse ideas and the group's desire to achieve better policy outcomes for the nation. A number of its members (John Taylor, Allan Meltzer, Ben McCallum, Michael Bordo, Marvin Goodfriend, Debbie Lucas, Athanasios Orphanides, Mickey Levy and many others) have been influential voices at the Kansas City Fed's Jackson Hole Symposium over the years.

On the eve of the FOMC's policy framework review, the SOMC (and others) will have yet another opportunity to weigh in on how the FOMC should think about its monetary policy strategy, tools, and communication practices. Over the past five years since the last framework review, significant changes have occurred in the economy because of a global pandemic and the monetary and fiscal response that followed. Incorporating lessons learned from the experience of that episode range from supply shocks, inflation dynamics, balance sheet policies, and the use of forward guidance to name a few.

This quintennial review also offers an opportunity to consider the central bank's communications and decision-making process itself. One aspect that the SOMC (among others) has noted is a growing decline in dissents from the FOMC's decisions. The 2023 working paper by Don Kohn and Gauti Eggertsson also mentions the lack of dissent among policy voters between September 2020 and June 2022, raising questions of whether the FOMC's very consensus-driven process suppressed an effective challenge to the majority view during this period.[1] Indeed, Chair Powell himself recently acknowledged that "the good ship 'Transitory' was a crowded one with most mainstream analysts and advanced-economy central bankers on board."[2]

Congress designed the Federal Reserve System to address concerns about its accountability and authority. The compromise was to decentralize its structure with a geographic dispersion that establishes a distribution of governance responsibilities and

---

[1] Eggertsson, Gauti B. and Donald Kohn. "The inflation surge of the 2020s: The role of monetary policy." Hutchins Center on Fiscal & Monetary Policy at Brookings Working Paper No. 87. August 2023.

[2] Powell, Jerome H. "Review and Outlook." Remarks delivered at "Reassessing the Effectiveness and Transmission of Monetary Policy," an economic symposium sponsored by the Federal Reserve Bank of Kansas City, Jackson Hole, Wyo. Aug. 23, 2024.

encourages independent and diverse perspectives in decision making. That structure has proven durable and remains intact today. So largely has the central bank's mission for monetary policy, supervision and regulation, and payment services to banks.

The FOMC is by design a large committee of 19 individuals who bring their own views and backgrounds to the policy table. Each of these policymakers can and do express these views publicly through speeches and interviews. As a result, there have been times when FOMC participants have been criticized for creating a cacophony of voices. In a 2016 speech, Powell addressed this critique, noting "the public expression of our diverse views helps sustain public support for the Federal Reserve as a public institution. Those members of the public who disagree with our policy should know that their concerns are given voice in our deliberations. But there is a tradeoff here that needs to be managed: On the one hand, the effectiveness of policy is thought to depend on the public's understanding of the Committee's consensus. On the other hand, the expression of diverse views may sometimes make it difficult for the public to see that consensus."[3]

Enhancing transparency and communication has been a focus of the FOMC for some time. Since 2007, the FOMC has sought to enhance the public's understanding of the individual participants' views. Four times a year, each of the 19 participants submits an anonymous individual forecast in the Summary of Economic Projections (or dot plot), which offers the public a sense of the range of opinions about inflation, employment, growth, and the appropriate policy settings for the federal funds rate. But the ultimate expression of this range of views comes from the FOMC's decisions at each meeting when 12 of the 19 participants cast a vote on the stance of monetary policy by registering a "yes" or "no" vote for the policy option being considered. A unanimous vote signals little daylight among the voting members – a strong consensus in support of the policy action. When a dissent is registered, the FOMC's statement notes who disagreed with the decision and why.

Synthesizing the diversity of views across such a large committee is a task that falls to the FOMC Chair. Indeed, the current Chair has generally gotten high marks for his ability to build consensus. No previous Chairman has led with fewer dissents.[4] This record of

---

[3] Powell. Jerome H. "A View from the Fed." Remarks delivered at the "Understanding Fedspeak" event cosponsored by the Hutchins Center on Fiscal and Monetary Policy at the Brookings Institution and the Center for Financial Economics at Johns Hopkins University, Washington, D.C. Nov. 30, 2016.

[4] Lacker, Jeffrey M. "Changing Governance Practices Seem to Have Reduced the Diversity of Views at the Federal Reserve." Presentation at the Meeting of the Shadow Open Market Committee. New York City. April 5, 2024.

consensus building is especially remarkable given the uncertainty associated with the global pandemic shock and the extraordinary surge in inflation. It has not gone unnoticed by market participants, academics, previous policymakers, and the press.

It was my experience that FOMC deliberations did allow for robust debate and consideration of various viewpoints before reaching a decision. Policy choices and strategy reflected this input. It was also true in my experience that presenting a unified front was viewed as enhancing the credibility of monetary policy decisions and providing stability to financial markets. Consistent messaging also is valued by market participants, particularly during times of heightened uncertainty and economic stress.

Having a diversity of views present at the policy table can challenge conventional thinking and shape good policy choices. Coming from someone who pulled the dissent lever from time to time as a voting member of the FOMC, it may come as no surprise that I also feel strongly that public trust and central bank credibility depends on the transparency of these diverse views, and intellectual honesty in expressing them not just internally but also publicly. It is in the public's interest to have the FOMC's policy decisions and its disagreements visible to the public.

A dissenting vote gives the public important insight to the nature of the debate that led to the policy decision. In fact, at the September 2024 FOMC meeting, a voting member dissented. While the nature of the policy disagreement was explained, the dissent drew particular attention because it was the first time in nearly two decades that a Federal Reserve Board governor voted against the majority. When dissents are unusual, the public might fairly question whether the FOMC's otherwise unified front is the result of groupthink and a desire for conformity rather than a thorough consideration of alternative economic and policy perspectives. It is a question that the Federal Reserve should take seriously, I think, as it has done in other instances where perceptions and appearances have the potential to undermine public trust in the institution.

Some have suggested that the Committee's use of forward guidance could have influenced FOMC voting patterns. Used extensively since the Great Financial Crisis, forward guidance is intended to influence financial and economic conditions in the short run by describing future monetary policy. It creates a binding commitment for the central bank if it is to be credible.

Others have argued that the collegial and consensus-driven culture among Fed policymakers reflects the basic nature of a committee and its membership. As described in 2008 by Carnegie-Mellon Professor Allan Meltzer (and a founder of the SOMC), "It's a club, and the members of the club tend to be supportive of a club, and particularly of the chairman. It's not popular to dissent."[5] During times of political divisiveness or attacks on the central bank, some have speculated that members may feel it is particularly important to close ranks in support of the institution and its leadership.

There are other dynamics beyond the FOMC committee itself, however, that I believe serve to reinforce a very strong consensus-oriented culture among its members. In particular, the Reserve Banks' operating model has evolved in a manner that emphasizes the need for a strong culture of collaboration and consensus in governance and staffing of their operations.

This shift began in the 1990s when the Reserve Bank presidents took steps to lower their operating costs by consolidating technology investments. As the banking landscape changed, additional moves toward consolidation were made in some of the core aspects of Reserve Bank operations such as payments system services to financial institutions. Offering a standardized national approach in these areas also led to the development of a different governance model – one that would substitute the established independent decision-making within a single Reserve Bank for oversight by a committee of presidents from multiple Reserve Banks. From an operational perspective, these initiatives helped to achieve the goal of creating a system-wide business model for nationwide services across market segments and geographies. The changes understandably prioritized efficiency and financial stewardship.

With this change, however, the Reserve Banks undertook an important, and necessary, cultural shift. Rather than optimizing decision-making and outcomes at the individual Reserve Bank level as had been the mode of operation historically, the culture transitioned to one designed to optimize "one System." As might be expected, this business model also emphasized new aspects of governance and leadership required of Fed leaders, as evidenced in the job description for a Reserve Bank president:[6]

While each Reserve Bank operates as a distinct legal entity, the success of a Reserve Bank and the overall System depends upon effective collaboration among the Reserve Banks… The intellectual and operational partnership among Reserve Banks has several dimensions relevant to the President's role. Among them:

• Personal System Contributions: Contributes to the System's Conference of Presidents' debate and decision-making on issues that transcend individual Reserve Bank purview.

---

[5] *The New York Times*. April 9, 2008.
[6] Position and Candidate Specification. President and Chief Executive Officer. Federal Reserve Bank of Philadelphia. Sept. 2024.

Recognizes the duty to ensure that decisions on such matters reflect the broad interests and strategies of the System. Leads or contributes to System committees, projects, or other efforts to ensure that the best ideas and thinking from across the System are identified. Builds consensus, reaches decisions, implements decisions, and assesses results.

• Support for Coordinated System Direction: Ensures the Bank supports coordinated System objectives through high-quality performance of System responsibilities and by fulfilling its performance-agreement obligations to the other Reserve Banks

• Staff Contributions: Identifies staff with the experience, interest, and ability to take roles in System subcommittees, task forces, and project work. Ensures such staff are available and support such System assignments.

Each of these explanations offers possible rationale for the waning votes of dissent. Forward guidance as a policy instrument, the very nature of committees and their leadership, and the evolution of the Reserve Bank operating model and governance mechanisms point to the premium placed on consensus. It is a reality that fosters the effective functioning of the central bank.

A strong culture of consensus by itself should not be misread as undue deference or loyalty. On the other hand, some view dissent as a "high bar" and for that reason, believe disagreements and debates on policy options are best carried out internally rather than cast as a public dissent. That approach strikes me as running the risk of making FOMC participants merely advisers and undermining their public duty of voting independent views. Certainly, an overly consensus-driven culture could make the FOMC less effective in responding to future economic challenges or crises.

How the FOMC strikes a balance between unified decision-making and dissents is critical to good policy decisions and public trust. For that reason, the trade-off is worth examining as the FOMC revisits its monetary policy strategy, tools, and communications practices.

It's also an issue the SOMC is well-positioned to weigh in on, as it has for half a century. I look forward to that tradition being carried forward in the spirit of achieving sound policy outcomes for the U.S.