
How Monetary Policy Is Made: Lessons from Historical FOMC Discussions

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How can we figure out how policymakers conduct MP? They tell us!

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- Two main results:
 1. Differences in perceived Phillips Curve slope drive individual policy preferences
 2. The Chair’s preferences have higher pass through to policy

What we collect

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3. **Perceived tradeoffs:** Would policy affect prices or real activity more?
4. **Objectives** beyond the dual mandate
5. **Gradualism:** preferred pace of adjustment
6. **Outside pressure:** Congress, President, financial markets
7. **Citations:** regional FRB staff, academic, industry sources
8. **Influence** across participants

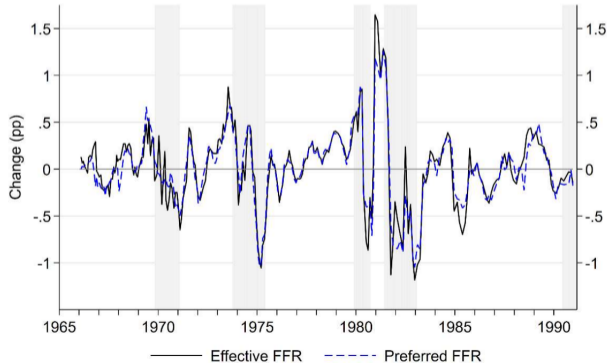
[coding examples →](#)

Individual policy preferences

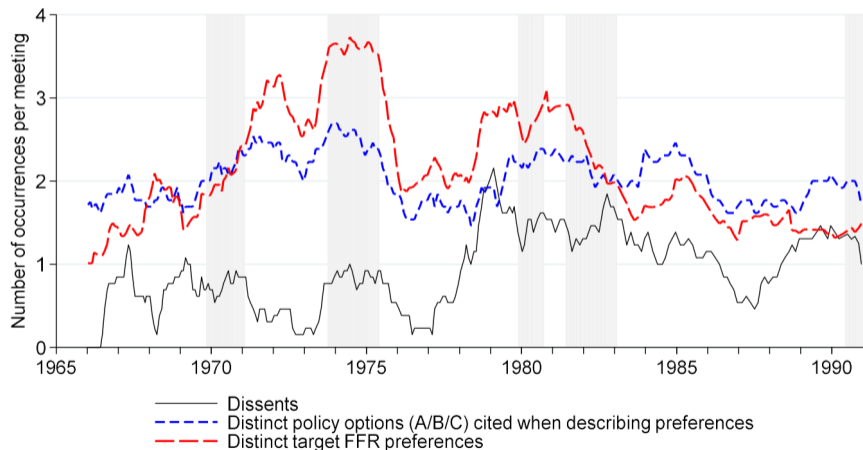
- "I prefer a FFR target range of 4.5-5.0%"
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Disagreement dwarfs dissent





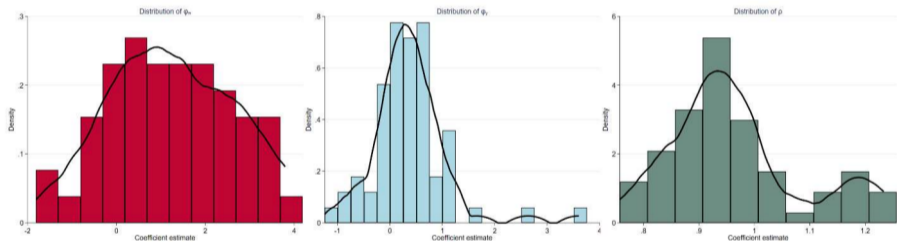
Where does disagreement come from?

Individual Taylor Rules

$$FFR_{it} = \alpha_i + \rho_i FFR_{t-1} + \phi_{\pi,i}(1 - \rho_i) E_t \pi_{t+1} + \phi_{y,i}(1 - \rho_i) E_t \Delta Y_t + e_{it}$$

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- Averages match aggregate estimates ($\phi_{\pi} \approx 1.5$, $\phi_y \approx 0.25$, $\rho \approx 0.9$),
 - But **lots of dispersion**: $\sim 1/3$ respond less than one-for-one to inflation

time variation →

Policy preference justifications

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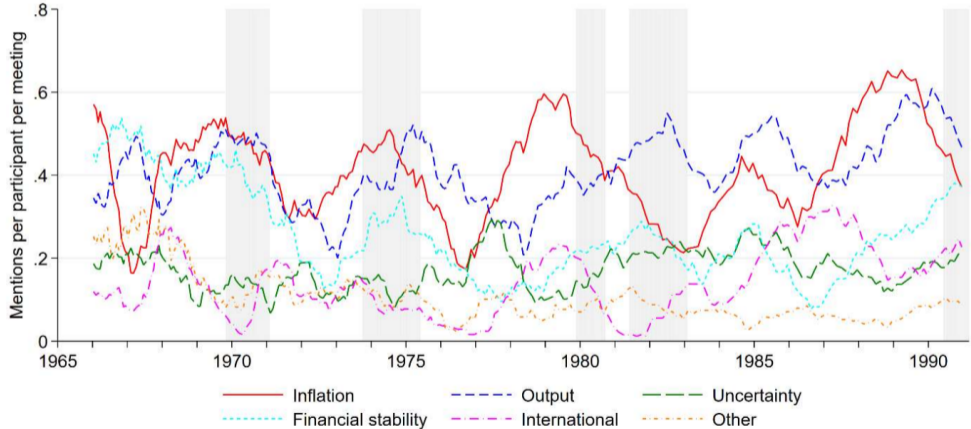
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June 1976, Vice Chair Volcker: "And that leaves me with somewhat opposite prescriptions of wanting to **boost business investment** but at the same time wanting to be **very cautious on the inflationary side.**" [-1 for inflation, $+1$ for output]

Justifications over time



Justifications predict preferences beyond forecasts

Outcome: Individual FFR preference	(1)	(2)	(3)	(4)
Inflation justification	-0.226*** (0.029)	-0.167*** (0.028)	-0.117*** (0.016)	-0.080*** (0.015)
Output justification	-0.309*** (0.055)	-0.242*** (0.040)	-0.120*** (0.020)	-0.090*** (0.017)
Greenbook forecasts		✓		
Meeting FE			✓	✓
Participant FE				✓

- Higher inflation/output → lower preference score → tighter policy preferences

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- **Many different ways to read the same tea leaves!**

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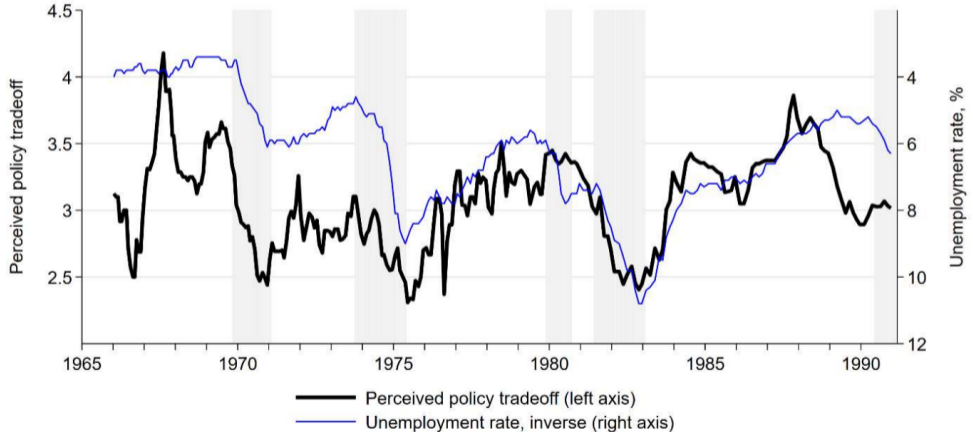
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*"I don't think we can do anything that will affect [GDP] very much very soon. But **monetary policy certainly can affect expectations and prices**."*

- April 1979 (score 4)

Time-varying perceived Phillips Curve



Shapley decomposition of policy preferences

Share of explained variance	no interactions	with tradeoff interactions
Justifications	56.5%	27.9%
Greenbook forecasts	34.3%	17.1%
Tradeoffs	3.3%	2.1%
Justifications \times Tradeoff	—	26.5%
Forecasts \times Tradeoff	—	17.4%
Other	5.9%	9.0%

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- Once interactions are allowed, nearly **half** of explanatory power runs *through* the perceived tradeoff
- The same forecast and the same concern map into meaningfully different policy preferences depending on how a participant thinks policy transmits!



Decisionmaking by Committee

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- Chair passthrough is just below 1; significantly lower for other roles
- This includes the median non-Chair voter, suggesting this isn't just consensus building

Crime (dissent) and punishment

Preference passthrough attenuates following dissents:

	baseline	+ extreme view controls
Preferred Δ FFR	0.422***	0.377***
× # dissents, last 4 meetings	-0.081**	-0.134**

- One dissent costs roughly 20-30% of a member's subsequent passthrough — even after controlling for how extreme or isolated their views are

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 - Consistent with a punishment mechanism to enforce cohesion
 - Alternatively: Could be the white flag after the battle is lost

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Thank you!

Appendix: Reaction functions over time

