

Comments on “The 50-Year History of the SOMC and the Evolution of Monetary Policy” by
Michael Bordo and Mickey Levy

David C. Wheelock
Federal Reserve Bank of St. Louis¹

Michael Bordo and Mickey Levy (2024) have written the definitive history of the first 50 years of the Shadow Open Market Committee (SOMC). Linking their narrative to the major policy challenges of the times, the authors describe the SOMC’s principal policy positions and the contributions of its individual members from the committee’s formation in 1973 to the present. As long-serving SOMC members, the authors are well positioned to provide insights about SOMC policy positions and the monetary and other policies the SOMC criticized. The authors show that the SOMC held consistent guiding principles throughout its 50-year history, notably including the importance of price stability, rules-based policies, and central bank independence. Bordo and Levy present a largely favorable review of SOMC policy positions and member reports, but they do point out a few missteps as well, such as the SOMC’s continued advocacy of monetary aggregate targeting well into the 1980s after instability in velocity had become apparent.

The SOMC was established in 1973 by the prominent monetary economists Allan Meltzer, Karl Brunner, and Anna Schwartz to provide an ongoing critical assessment of Federal Reserve (Fed) monetary policy. At the time, Fed leaders were publicly blaming high inflation on oil price shocks, government budget deficits, and monopolistic price setting by firms and labor unions—anything but monetary policy—and advocating wage and price controls to address it.² The stature of SOMC members and their access to members of Congress and the media brought attention to the SOMC’s criticisms of the Fed and its policies. But did the SOMC’s criticisms influence Fed policy? The evidence is unclear. Inflation continued to rise in waves through the 1970s and the Fed did not address it seriously until October 1979, when the Federal Open Market Committee (FOMC), under Fed Chairman Paul Volcker, adopted new operating procedures in a stronger effort to control inflation.

Bordo and Levy argue that the SOMC “likely influenced Fed Chairman Paul Volcker to shift gears in 1979 toward its successful disinflation based on reducing growth of a monetary aggregate...” But, as the authors admit, Volcker was already an inflation hawk and frequent dissenter on FOMC decisions when he was president of the Federal Reserve Bank of New York. There were also many forces pushing the Fed to control inflation, including the collapsing value of the dollar in international markets. As Bordo and Levy note, Volcker’s aggressive tightening was at odds with the more gradual approach to slowing of money growth that the SOMC

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² See Bordo and Orphanides (2013) and the chapters therein for a history of the Great Inflation and alternative perspectives on what caused it. Poole, Rasche and Wheelock (2013) describe the policy views of Fed officials at the time.

advocated. Others have suggested that Volcker used the change in operating procedures to divert attention from actions intended to push interest rates to high levels. Wide swings in growth of monetary aggregates during the 1979-82 disinflation suggest that the Volcker-led FOMC was not following a monetarist approach even if it was committed to controlling inflation (see, e.g., Friedman 1984). Nonetheless, while the direct influence of the SOMC and its allies on the Volcker Fed is debatable, they were at least indirectly influential through their advocacy before Congress, which amended the Federal Reserve Act in 1977 to require the Fed to regularly report money supply growth targets.

After the Great Inflation, the SOMC entered something of a wilderness period in the 1980s when it continued to advocate for targeting narrow monetary aggregates long after velocity had become unstable. Bordo and Levy argue that “The SOMC overplayed its monetarist hand that had been so influential in the 1970s.” Volcker transitioned the Fed’s operating procedure from targeting monetary aggregates to interest rates. In 1982, the FOMC began targeting the federal funds rate—hardly the SOMC’s preferred target—but the FOMC did not abandon its commitment to price stability. In that regard, the FOMC had moved into alignment with the SOMC.

As the economy recovered from the twin recessions of 1980-82 and the economy entered the “Great Moderation,” criticism of the Fed and its policies declined and Alan Greenspan, who replaced Volcker as Fed chair in 1987, was hailed as the economy’s “maestro” (Woodward 2001). Perhaps because there seemed to be less to criticize about monetary policy, the SOMC broadened its areas of focus to include fiscal policy, financial regulation and exchange rate policy. By the early 1990s the SOMC had renewed its focus on monetary policy when it began to call on the Fed to adopt an explicit inflation target and rules-based policies. On January 25, 2012, the Fed publicly announced a numerical target for inflation, aligning the Fed with many other central banks worldwide.

The SOMC has continued to provide timely and relevant policy analysis and advocacy in recent decades, and Bordo and Levy provide a cogent summary of the SOMC’s policy positions in those years. A striking aspect of the SOMC’s recent history has been the flow of members between the SOMC and the Federal Reserve. Of the SOMC’s original members, only Robert Rasche moved to the Fed when he became research director of the Federal Reserve Bank of St. Louis in 1998. Two other early SOMC members, Jerry Jordan, who joined the SOMC in 1976, and William Poole, who joined the SOMC in 1984, later became Reserve Bank presidents. More recently, the flow has mostly been in the opposite direction. Charles Plosser, SOMC member from 1991-2006, was the most recent SOMC member to move to the Fed when he became president of the Philadelphia Fed in 2006. Of the 11 individuals who joined the SOMC in 2000 or later, five were former Reserve Bank presidents or senior staff members of a Reserve Bank or the Board of Governors, and four of the 10 current SOMC members are former Fed presidents or senior staffers. The SOMC does not appear in imminent danger of being captured by the Fed. It continues to have strong academic members and those with Fed backgrounds can undoubtedly provide perspectives that outsiders cannot. Bordo and Levy do not discuss how potential SOMC members are identified or recruited, or whether changes in the committee’s makeup over time reflect strategic realignments or a more haphazard approach to membership.

Perhaps no other entity within the Federal Reserve System has had a closer relationship with the SOMC since its founding than the Federal Reserve Bank of St. Louis. The Bank's most recent former president, James Bullard, joined the SOMC in 2024, but the ties between the SOMC and St. Louis Fed were especially strong in the 1970s and in many ways, the histories of the Bank's policy positions and research focus have mirrored those of the SOMC. In the 1970s, St. Louis Fed presidents Darryl Francis (1966-76) and Lawrence Roos (1976-83) advocated monetarist positions in FOMC meetings and speeches, and the Bank's economists regularly published research that supported those positions in the Bank's *Review* and in academic journals.³

The St. Louis Fed's monetarist tradition began with Homer Jones, who became the Bank's research director in 1958. Jones had close ties to Milton Friedman, having been an instructor of Friedman's at Rutgers University when Friedman was an undergraduate student, and later a graduate student of Friedman's at the University of Chicago. Another Friedman student and original SOMC member, James Meigs, was a St. Louis Fed economist in the early 1960s. The Bank also had a close association with Karl Brunner and Allan Meltzer through Brunner's students Jerry Jordan and Anatol Balbach, both of whom were St. Louis Fed staff economists and successors of Jones as the Bank's research director. Throughout the Great Inflation era, the Bank's presidents advocated monetarist policies at FOMC meetings and in speeches like those pushed for by the SOMC, and the Bank's *Review* published supporting research. The St. Louis Fed acquired a reputation as a "maverick" within the Federal Reserve System because of its criticism of the Fed's monetary policy and its advocacy of a monetarist alternative.⁴

The St. Louis Fed's close ties with the SOMC continued in subsequent decades. Like the SOMC, the St. Louis Fed's leaders continued to advocate for targeting monetary aggregates well into the 1980s. In the early 1970s, the Bank developed an empirical model for gauging the impact of monetary policy actions on economic activity that was used to generate short-run policy forecasts and prescriptions based on the growth of monetary aggregates. Early success in forecasting and apparently finding robust, stable relationships in both long- and short-run data led the Bank's economists to apply the long-run quantity-theoretic propositions of the model to short-run policy questions. When the short-run correlation between money and economic activity broke down in the 1980s, the Bank, like the SOMC, was slow to abandon monetary aggregate-based policy prescriptions. Refinements of the model in the early 1980s improved its ability to forecast output and inflation, but as the decade progressed the handwriting was on the wall and the model was eventually abandoned (Hafer and Wheelock 2001).

Just as the SOMC eventually adapted, so too did the research and policy positions of the St. Louis Fed. The close relationships between the SOMC and St. Louis Fed continued under William Poole, who served as the Bank's president from 1998-2008 and Robert Rasche,

³ See Hafer and Wheelock (2001; 2003) and Kliesen and Wheelock (2021) for summaries of the policy positions and research published in the *Federal Reserve Bank of St. Louis Review* in the 1970s and early 1980s.

⁴ "Maverick in the Fed System," *Business Week*, Nov. 18, 1967, pp. 128-34.

the Bank’s research director under Poole. Supported by Rasche and the Bank’s research staff, Poole was a strong advocate for price stability, clear communication, and rules-based policies (e.g., Poole 1998; 1999). Poole also publicly warned of the risks that Fannie Mae and Freddie Mac posed to the financial system – a viewpoint also expressed by the SOMC (Poole 2001; Hess 2002).

James Bullard, who joined the St. Louis Fed’s research staff in 1990, succeeded Poole as the Bank’s president in 2008 and served until August 2023. Christopher Waller succeeded Rasche as the Bank’s research director shortly thereafter and served in that position until joining the Fed’s Board of Governors in 2020. Consistent with long-held SOMC positions, Bullard has been a proponent of central bank independence and rules-based policy based on strong theoretical foundations (e.g., Bullard 2013; 2023a). For example, during the recent inflation episode he used a representation of a “generous” Taylor rule in public presentations to argue effectively that monetary policy was insufficiently restrictive (e.g., Bullard 2023b). In this regard, Bullard was aligned Ben McCallum who in an SOMC paper “acknowledged that the Fed and central banks should not be strictly rules driven” but that rules “provide a good starting-place or ‘benchmark’ for consideration in policy settings.”⁵

The 50-year history of the SOMC is a testament to the energy and intellect of its founders, subsequent leaders and members, and to the significance of their work. Bordo and Levy have provided a valuable insider’s guide to the history of SOMC policy positions and contributions over the group’s first 50 years. The ongoing debates about monetary, fiscal, and regulatory policies will undoubtedly continue for many years to come. The SOMC is well positioned to contribute to those debates as it moves into its second 50 years. However, to be successful, it needs to attract and nurture young academic talent working in monetary economics, macroeconomics, and financial markets. Additionally, increasing its visibility through media outreach could be crucial. In today’s world, leading the discussion is just as important as providing a state-of-the-art monetary framework.

⁵ Quoted in Bordo and Levy (2024).

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