

# Monetary Policy

## Setting the Stage for Growth

Monetary policy is the primary tool used by the Federal Reserve to create a financial environment for sustained economic growth. Policy is set nationally, through the Federal Open Market Committee (FOMC).

All 12 Federal Reserve District presidents participate in FOMC discussions, but they vote on a rotating basis. (Philadelphia's next turn will come in 2002.) The FOMC meets eight times a year in Washington and consists of 12 voting members: seven from the Board of Governors and a rotating group of five Federal Reserve Bank presidents.

The FOMC influences liquidity in the economy by setting the federal funds rate, the interest rate at which banks borrow and lend reserves to one another. This rate affects the availability of money and credit in the economy. The availability of money and credit influences spending and, in turn, demand for goods and services. The Fed's goal is to keep growth of demand for goods and services in line with that of the economy's production capacity, which keeps inflation under control. So, by increasing or decreasing banks' liquidity through cash reserves, the Fed initiates a sequence of events that, ideally, keeps inflation in check and permits economic expansion.



Executive Vice President Richard W. Lang, shown at the Independence Mall entrance to the Philadelphia Fed, oversees the Bank's research and external outreach activities.



The discount rate, the interest paid by banks borrowing directly from the Fed, is set by the Board of Governors in Washington and the boards of directors of each Federal Reserve Bank. Every two weeks, Reserve Bank boards meet to discuss national and regional economic conditions and vote on whether to adjust the discount rate. Their recommendations are given to the Board of Governors, and if the situation warrants, the Governors approve a discount rate change for Federal Reserve Banks.

The factual foundation for policy discussions is provided by the Research Department. In Philadelphia, regional and national economic data are collected and analyzed to assess underlying trends in the Third District, so that the impact of economic cycles in this area can be better understood. Staff economists regularly brief President Santomero and the Bank's board of directors on national and regional economic developments.

Information gathered and analyzed by the Philadelphia Fed is made available to the rest of the Federal Reserve System, as well as to businesses, educators, the media, and the general public. The Bank's monthly Business Outlook Survey, taken among Third District manufacturing firms, is considered by financial analysts to be an early barometer of changing conditions in the national economy. Results of this survey, as well as the Research Department's other surveys and analyses, are available at the Philadelphia Fed's web site: [www.phil.frb.org](http://www.phil.frb.org).

By contributing local perspective to the national discussion of monetary policy, conducting ongoing research into regional economic trends, and keeping in close touch with the people who live, work, and do business in the Third District, the Philadelphia Fed contributes significantly to the creation of a financial environment conducive to economic growth.