# Fed 101: Approaching Monetary Policy with Heart, Brains, and Courage

**Beth M. Hammack**
**President and Chief Executive Officer**
**Federal Reserve Bank of Cleveland**

**Columbus Metropolitan Club Forum**
**Columbus, Ohio**

**April 16, 2025**

**Introduction**

Good afternoon and thank you everyone for being here today. I am honored to join you at the Columbus Metropolitan Club. I applaud the 13 Central Ohio women who founded this club with the goal of creating a space in which people from all walks of life could participate in meaningful conversations. A critical part of my role as Cleveland Fed president is to understand what's on the minds of District residents and businesses and how they are experiencing the economy. So I will encourage conversation by keeping these remarks brief and sharing a little bit about me, the Cleveland Fed, what we do, and my outlook for the economy and monetary policy. As always, I will note that the views I express today are my own and not necessarily those of the Federal Reserve System or my colleagues on the Federal Open Market Committee.[1]

**About Beth**

I am a relatively recent Ohio resident, having moved here just last summer. However, my husband grew up in suburban Cleveland, and his family continues to call the region home. We've greatly enjoyed getting to know our new surroundings, taking advantage of the Metroparks, and cheering for the Cavaliers and the national-champion Buckeyes of The Ohio State University. As a full-time resident who has the opportunity and responsibility to travel around the area, I have been moved by how welcoming communities have been. There's no place like my new home.

Before joining the Cleveland Fed, I worked in the private sector in financial markets for 30 years. One of the highlights of my career was engaging directly with policymakers and sharing market insights with them. It was my interest in making an impact and the Fed's public service mission that attracted me to my current role. And while it's a horse of a different color, it is both thrilling and humbling to apply my practical experience to lead the Federal Reserve Bank of Cleveland in our work to improve economic well-being in the region and the nation.

[1] I am grateful to Dani Carlson and Edward Knotek for assistance with these remarks.

**Federal Reserve Structure**

You may hear "Cleveland Fed" and wonder how exactly Columbus fits in. The Cleveland Fed actually represents all of Ohio, western Pennsylvania, eastern Kentucky, and the northern panhandle of West Virginia. That territory is the Fourth Federal Reserve District, one of 12 Districts that were created more than 100 years ago as a part of the country's third attempt to create a central bank—and the third time, in this case was the charm. The authors of the Federal Reserve Act saw the need to create a central banking "system" rather than a single entity concentrated in Washington DC or on Wall Street. What emerged is the decentralized, public–private system we still have today, one that is uniquely capable of serving the nation's economic and financial interests free from short-term political pressures.

In Washington DC, the Board of Governors is a part of the federal government, with seven members who are appointed by the US president and confirmed by the Senate. The 12 regional Reserve Banks are the operating arms of the Federal Reserve System, and although we were created by Congress to serve the public, the Reserve Banks are not part of the federal government. We each have a board of directors selected from regional leaders in the business, banking, and civic communities.

The Fed's decentralized structure allows each Reserve Bank president to bring their District's unique perspective and on-the-ground insights into the nation's monetary policy-setting process. That's part of why I and the team at the Cleveland Fed, take the responsibility of traveling around the region and building relationships here in Columbus and elsewhere so seriously. It's our heart's desire to know how the economy is really working for people all around the District, and we start by looking no further than our own backyard.

**The Federal Reserve's Five Functions**

While setting monetary policy may be the most well-known responsibility of the Federal Reserve System, we have four other key functions.

***Financial Stability***

First, the Fed has a responsibility to promote financial stability, which was the primary reason for our founding in 1913. The Fed monitors the financial landscape for emerging risks while enforcing rules and regulations that aim to promote financial system resilience over the longer term. And in the case of a crisis, we have emergency tools that we can use to take action to contain the economic damage if a shock hits the economy.

***Supervision and Regulation***

Closely related to financial stability is our supervision and regulation function. The Fed's Board of Governors sets regulatory policy. The 12 Reserve Banks have been delegated authority to examine individual banks and other financial institutions to ensure they operate safely and soundly. At the Cleveland Fed, we have a team of examiners who evaluate more than 260 financial institutions across our District. These stable institutions provide valuable credit services to households and businesses and form the foundation of a strong financial system.

***Payments***

Third is our support for the nation's payments system, where we ensure everything runs smoothly behind the scenes. As the Federal Reserve System, we run Fedwire, electronic money transfers between banks and credit unions, check clearing, and other valuable services. In addition, the Cleveland Fed supports the US government's payments services. If you've ever made a payment on a student loan or used a credit card to buy a souvenir at a national park gift shop, you've touched applications developed and managed by the Cleveland Fed's Treasury Services team.

Though cash and checks have given way to electronic payments in many cases, the Fed is continually assessing how much currency will be needed in the system as financial habits change. The Federal Reserve processes and issues paper currency to banks from its locations across the country, including in Cleveland and Cincinnati.

***Consumer Protection and Community Development***

A fourth responsibility is to promote consumer protection and community development. This work takes several forms. In supporting consumer protection, bank examiners at the Cleveland Fed and throughout the Federal Reserve System ensure that financial institutions follow fair lending and housing laws and that they are meeting the credit needs of low- and moderate-income individuals and neighborhoods, as prescribed under the Community Reinvestment Act.

To support community development, Reserve Banks work with partners and research topics like affordable housing, issues facing small-businesses, and workforce development. The Cleveland Fed is home to several Systemwide efforts around this function, including fedcommunities.org, which highlights the work of community development teams across the 12 Reserve Banks.

***Monetary Policy***

That brings me back to the Fed's best-known responsibility: conducting monetary policy. Monetary policy actions are undertaken by the Federal Open Market Committee, or FOMC, which is made up of the 12 presidents of the Reserve Banks and the seven governors at the Board of Governors in Washington DC. The 12 Reserve Bank presidents rotate voting years, apart from the president of the New York Fed, who is a permanent voting member and vice chair of the committee. Whether voting or not, all 19 of us speak, listen, and learn from one another at every meeting.

Congress has given the FOMC a dual mandate to achieve maximum employment and stable prices. To do this, the FOMC considers a wide range of information to assess how close or how far we are from these goals and how likely the economy is to reach them. We generally meet eight times a year, about every six to seven weeks in Washington, DC. Before each meeting, I spend nearly a full week with the Cleveland Fed's team of research economists to understand what theoretical models, empirical data, and contacts from our District are telling us about the economy. I rely on this team to help me understand the impacts of various monetary policy approaches and pair this analysis with my reading of the signals that businesses, households, and markets are sending.

**Economic Outlook**

Recently, the signals coming from these sources have been decidedly mixed. By many measures, the backward-looking data have been encouraging, but heightened uncertainty surrounding government policies is clouding the outlook and raising the risks of higher inflation and slower growth.

The economy entered this year with solid momentum, as real gross domestic product increased at a 2-3/4 percent annualized rate during the second half of last year. But the incoming data for the just-completed first quarter point to a step down in growth as consumers and businesses have grown more cautious. National survey measures of consumer and business sentiment have declined, with many respondents noting policy uncertainty as a key factor. At the Cleveland Fed, we compile feedback from regional business and community leaders into our SORCE index, which captures current and expected trends in the local economy.[2] In general, our contacts report subdued economic activity. Many indicate that they have paused some spending in light of increased uncertainty surrounding government policies, including tariffs, immigration, federal spending, and employment.

Looking at our maximum employment goal, the US labor market has been healthy. The unemployment rate was 4.2 percent in March, a relatively low level and similar to its readings over the last 12 months, with solid job gains through the first three months of this year. However, on our inflation objective, there is still more work to do to return the economy to price stability, which the FOMC defines as 2 percent inflation in the Personal Consumption Expenditures price index, or PCE inflation. Headline PCE inflation was 2-1/2 percent through February, and core PCE inflation, which excludes the volatile food and energy sectors, was somewhat higher. Both measures are likely to move down once the March readings are released, to readings that are still somewhat above our 2 percent goal. But much of this hard data is backward looking, and we as policymakers must consider the possibility that we may not be in Kansas anymore.

---

[2] Before each meeting of the FOMC, the Cleveland Fed provides updates regarding recent and expected regional business and community conditions via its Survey of Regional Conditions and Expectations (SORCE) indexes. See https://clevelandfed.org/sorce.

Over the last two weeks, changes in tariffs have figured prominently in the news. On net, the tariffs that have been put in place constitute a substantive change in trade policy. It will take some time for the overall economic effects of these recently enacted and other proposed changes to government policies to become clearer.

In recent weeks, financial markets have been volatile as they incorporated this news into various asset prices. Thus far, financial conditions have tightened on net, as major equity indices have declined, credit spreads have widened, and longer-term interest rates have increased. At the same time, the dollar has weakened against a basket of foreign currencies. This pattern is different from recent "risk-off" episodes in which equity prices declined, credit spreads widened, the dollar appreciated, and US Treasury yields fell as domestic and international investors sought the safety of US government bonds.

My staff and I are updating our assessment of the path ahead based on the incoming economic and financial data alongside anecdotes from the District. From what we've heard so far, uncertainty surrounding the outlook is high. I see risks around both legs of our dual mandate that could lead to higher inflation outcomes and to lower growth and employment outcomes in the near to medium term. This is a difficult set of risks for monetary policy to navigate.

Given the economy's starting point, and with both sides of our mandate expected to be under pressure, there is a strong case to hold monetary policy steady in order to balance the risks coming from further elevated inflation and a slowing labor market. When clarity is hard to come by, waiting for additional data will help inform the path ahead.

With inflation elevated, the current modestly restrictive stance for monetary policy is appropriate to continue the downward pressure on inflation so that it returns to our goal in a timely fashion. If the economy should falter and inflation decline, then it may be appropriate to ease policy by lowering the federal funds rate from its current level of 4-1/4 to 4-1/2 percent, perhaps even quickly. If the labor market remains healthy and inflation moves up persistently, then monetary policy may need to follow a more restrictive trajectory. But if elevated inflation is paired with a slowing labor market, then monetary policy will face some challenging tradeoffs. In that case, it will be important to ensure inflation expectations remain well anchored while assessing the likely magnitude and persistence of the misses to each side of our dual mandate goals.

Unfortunately, my crystal ball only shows the present, so we will simply have to see how events unfold. I would rather be slow and move in the right direction than move quickly in the wrong direction. Setting monetary policy takes heart, brains, and not a small amount of courage. Fortunately, I think we are in position to assess the incoming data, the risks to the outlook, and the appropriate policy response to achieve our longer-term objectives. If only the path to meet both parts of our mandate was as clear as following the yellow brick road.

**Conclusion**

The more I learn from and listen to the people who live and work in the region, the more I continue to be impressed by a strong spirit of collaboration. Whether I'm participating in a roundtable in Columbus, touring a construction project in Pittsburgh, or learning about the equine industry in Lexington, I see the same commitment to making sure our region is vibrant.

I hope all of you take away from my remarks that the Cleveland Fed is a resource for the communities we serve and that our employees are *of* these communities. So, here's my ask for all of you: Please get involved with the work we're doing at the Cleveland Fed to thoroughly represent all parts of our District, including right here in Columbus. We have many opportunities to make your voice heard. For example, we need people in our business communities to serve as Beige Book contacts and advisory council members. We are also looking for insights from community organizations on the barriers to joining the workforce. You can find more information and ways to work with us on clevelandfed.org. I am looking forward to making today's event a conversation and hearing your insights and questions. Thank you.