Welcome and Introductory Remarks:
Shadow Open Market Committee at the Center for Financial Stability

Lawrence Goodman

November 7, 2025

The Fed in the Crosshairs: Independence, Systematic Monetary Policy, GSE Reform, and Financial Stability

New York, NY

Good morning, I am Larry Goodman, president of the CFS.

Today is a special day. It marks the first meeting of the Shadow Open Market Committee (SOMC) at the Center for Financial Stability.

Historically, the CFS's primary focus has been financial stability. Whereas, the SOMC has been the leading Fed watchdog for over 50 years. There is much to do.

Today, we are going to delve deeply into **"The Fed in the Crosshairs: Independence, Systematic Monetary Policy, GSE Reform, and Financial Stability."**

First, there are many people to thank. Members of the Shadow Open Market Committee... Jim Bullard, Charles Calomiris, Greg Hess, Peter Ireland, Andy Levin, Debbie Lucas, and Athanasios Orphanides. I would also like to offer a hearty thanks to Jeff Lacker, Michael Bordo and, especially Mickey Levy, for their unending energy to make our partnership a success. In fact, Mickey is the longest standing member of the SOMC. In many ways, he is the glue that keeps the SOMC moving in the right direction. I'm not going to tell you how long he has been a member of the SOMC. But, if you are interested in the answer, it is available in this **wonderful book published by the Hoover Institution in honor of the SOMC's 50th anniversary.**[1] The book contains important papers about pressing monetary policy issues as well as a superb piece written by Michael and Mickey on the last 50 years of the SOMC, which was founded by Allan Meltzer from Carnegie-Mellon University and Carl Brunner from the University of Rochester. In addition to the book, major contributions of the SOMC and its members over the years are available on the CFS website.[2]

I am also grateful to the Center for Financial Stability's Board of Trustees and Advisory Board members, who were so overwhelmingly supportive of our partnership – namely, our Chair Randy Quarles, Peter Flocos, Eduardo Aninat, Sheila Bair, Bill Bradley, Joyce Chang, Shafik Gabr, Charles Goodhart, Henry Kaufman, Barbara Novick, Guillermo Ortiz, Bill Rhodes, Richard Sandor, and Myron Scholes.

[1] Hoover Institution Press. (2025). Fifty years of the Shadow Open Market Committee : a retrospective on its role in monetary policy (M. D. Bordo, J. M. Lacker, M. D. Levy, & J. B. Taylor, Eds.). Hoover Institution Press, Stanford University.

[2] https://www.centerforfinancialstability.org/SOMC.php

I also want to thank our guest speakers and moderators: Robin Lumsdaine, Amit Seru, Michael Faulkender, and Matt Richardson. Likewise, we are grateful to all who are joining us – whether you are with us physically today or viewing the webcast – which will be available shortly after the conference concludes.

This is our first meeting together. Hence, **we are interested in engagement and feedback.**

Global Challenges

Today, we are experiencing a massive global and geostrategic regime shift. Over the years, I have been privileged to analyze, invest in, or lead teams evaluating opportunities and risks in over 80 countries. Many, of the challenging vectors at play today, we have seen before. But, never – at least in the post WWII era – have we seen this many vectors firing simultaneously and presenting strains even in advanced economies.

We can create long lists of vulnerabilities and challenges. Yet, to me, they break into three broad categories: conflict, technology, and of course economics or macro-financial.

Shadow Open Market Committee

The work of the SOMC is essential for understanding macro-financial dynamics and promulgating future policies for economic strength and financial stability.

Since its inception, the SOMC has been positioned as a constructive "outside watchdog" of the Fed's Federal Open Market Committee (or FOMC). The SOMC is driven by core beliefs that sound monetary policy is guided by:

- First, systematic rules whose primary objective is stable and low inflation - as the best foundation for healthy economic performance;
- Second, transparency and accountability; and
- Third, systematic and economically rational approaches to financial regulations.

CFS was built on similar beliefs as well as shared values of independence and nonpartisanship.

To be sure, over years, the Fed has been an agent of stability. Yet, policy errors have led to meaningful economic and financial instability. For instance, in Mike Bordo and Mickey Levy's "The Fifty-Year History of the SOMC and the Evolution of Monetary Policy", three periods loom large.[3]

[3] Hoover Institution Press. (2025). Fifty years of the Shadow Open Market Committee : a retrospective on its role in monetary policy (M. D. Bordo, J. M. Lacker, M. D. Levy, & J. B. Taylor, Eds.). Hoover Institution Press, Stanford University.

- The 1970s – where inflation hit highs and growth shriveled,
- The early 2000s – where fears of deflation triggered easy monetary policy and a housing market bubble, and
- The post covid period – where essential policy responses were too large and kept in place for too long, triggering another destabilizing wave of high inflation.

Over the last 50 years, the SOMC got much right especially in the 1970s and since 2000.

Going forward, CFS believes that the SOMC and its distinguished members are uniquely positioned to help the Fed think strategically in a respectful and constructive way.

Center for Financial Stability

The CFS was formed shortly after the global financial crisis. It was motivated by work at the US Treasury between 2003 and 2006 to detect and warn about future international financial vulnerabilities. At the time, it was resoundingly clear that the next crisis would not originate in an emerging market or another advanced economy. But, it would originate right here, at home, in the United States.[4]

It was tragic to watch the crisis unfold between 2007 and 2009.

Now, the focus at CFS is simple. There are two priorities: first, analytics and data; and second, high-quality engagement with thought leaders stretching from private sector practitioners to public officials and to academics.

Over the years, we have done much on the monetary front from Bretton Woods and the international monetary system… which is now back in vogue … to bitcoin and Blockchain technology ... to **building unique analytic and data frameworks, under the leadership of professor William A. Barnett.** Bill serves as the director of Advances in Monetary and Financial Measurement at CFS – where we bring his innovative Divisia technique to life, measuring aggregate monetary service flows from assets and liabilities in the financial system. For further information, **I recommend Bill's book Getting It Wrong published by the MIT press**[5] **as well as the data, analytics, and library available on the CFS Advances in Monetary and Financial Measurement page**.[6]

Here, work over the last 14 years, illustrates the importance of measuring money and the activities of financial institutions to sculpt better policies, reduce risks, and make better investment decisions.

---

[4] Goodman, Lawrence, "Crisis Detection and Prevention: Implications for Investors and Officials," Remarks at the Boston Economic Club, Center for Financial Stability, March 23, 2016
[5] Barnett, William A., "Getting It Wrong: How Faulty Monetary Statistics Undermine the Fed, the Financial System, and the Economy," MIT Press, 2012.
[6] https://www.centerforfinancialstability.org/amfm.php

I am not going to go into great detail, but here are two areas among many – where CFS analytics, data, and judgement – got it right.

Tyler Cowen framed the issue well in a Bloomberg opinion piece. He wrote that "**plenty of people like to say that they knew at the time that the big money supply increases of 2008-2009 were not going to lead to high inflation. There are also people who like to say that they knew at the time that the combined monetary and fiscal response from the pandemic would lead to much higher rates of price inflation. But relatively few people can gloat about getting it right both times**."[7]

CFS did. Active application of Bill's monetary data in real time were instrumental. Results were impressive. They are available on the CFS website or we are happy to provide references (see Appendix 1).

Yet, shockingly, the post Covid experience seems to have had only a small impact on Fed policy. In the early stages of Covid, **Charles Goodhart wrote for CFS "After Coronavirus: Deflation or Inflation?", where he contrasted two strongly held, but competing views**.

- First, a mainstream position suggesting that inflationary pressures would remain muted for the foreseeable future.
- Second… a contrary view believing that expansionary monetary and fiscal policies would generate inflation.

Importantly, Charles concluded that **"apart from the practical implications of finding out which of these positions is more nearly correct, it will affect macroeconomic theory and teaching, perhaps forever."** [8]

Sadly, this has yet to happen.

At CFS, on the engagement front, our engagement today is meaningful. One of the hallmarks of CFS meetings is that we hope that many relationships form and ideas are shared. We also hope that this discussion continues outside of the room today and into the future.

With that, I offer thanks to all who are with us, in person and those viewing the webcast. Now, I look forward to a productive and wonderful learning experience.

[7] Tyler Cowen, "Fischer Black May Have Been Right About Inflation," Bloomberg L.P., February 15, 2022.
[8] Charles Goodhart, "After Coronavirus: Deflation or Inflation?," Center for Financial Stability, August 14, 2020

Appendix 1. Inflation, Turning Points, and Financial Markets in Real Time

- "Why CFS Divisia Money Matters, Now," Remarks at The Society of Economic Measurement Conference, Thessaloniki, Greece, July 8, 2016.
  http://the-cfs.org/research/why_cfs_divisia_071316.pdf

- "Expect Deflation then Inflation: CFS money growth soars to double digits," email to members and friends, Center for Financial Stability, April 22, 2020.

- "Inflation Fears Offers the Fed a Chance to Modernize with Money," April 26, 2021
  https://www.centerforfinancialstability.org/research/Modernize_Money_042621.pdf

- Post-Pandemic Economic Risks, May 5, 2021
  https://www.centerforfinancialstability.org/research/Post_Pandemic_Economic_Risks_050521.pdf

- New Money Growth and Inflation, June 4, 2021
  https://www.centerforfinancialstability.org/research/Money_Growth_Inflation_060421.pdf

- Now, Inflation is Clear and Global, July 14, 2021
  https://www.centerforfinancialstability.org/research/Global_inflation_clear_071421.pdf

- Inflation was inevitable after the Fed fuelled monetary growth, The Financial Times, August 8, 2021
  https://www.ft.com/content/2f7f1bad-ed6b-4a6a-9123-0eb024541c8a

- Two Measures for the Fed and Investors, November 2, 2021
  https://www.centerforfinancialstability.org/research/Measures_Fed_110221.pdf

- How the Fed Rigs the Bond Market: Sales by "vigilantes" used to serve as a warning of inflationary policies. The signal has been muted., The Wall Street Journal, November 18, 2021
  https://www.wsj.com/articles/how-the-fed-rigs-the-bond-market-inflation-yields-financial-crisis-treasury-11637165868

- Falling Money and the Fed, January 31, 2023
  https://www.centerforfinancialstability.org/research/Falling_Money_013123.pdf

- A Story of Money, Inflation, and the CFS, June 6, 2023
  https://www.centerforfinancialstability.org/research/Money_Story_060623.pdf