

Strengthening the Federal Reserve's Governance

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*Note: The views expressed here are not intended
to convey the views of any other person or institution.*

Revised FOMC Statement of Longer-Run Goals and Policy Strategy

Statement: *“The FOMC seeks to explain its monetary policy decisions to the public as clearly as possible.”*

Reality: The revised statement provides less clarity about the FOMC’s goals & strategy.

Statement: *“The FOMC’s primary means of adjusting the stance of monetary policy is through changes in the target fed funds rate.”*

Reality: The 5-year Treasury yield is now 0.25%.

Revised FOMC Statement of Longer-Run Goals and Strategy (*contd.*)

Statement: *“After periods when inflation has been running persistently below 2%, appropriate monetary policy will likely aim to achieve inflation moderately above 2% for some time.”*

Reality: Last month’s Philadelphia Fed SPF projections: 1.7% for 2020-24, 1.85% for 2020-29.

Statement: *“The FOMC is prepared to use its full range of tools to achieve its goals.”*

Reality: The FOMC is not considering how to implement negative interest rates if needed.

Strengths of the Federal Reserve Banks

The 12 regional Federal Reserve Banks are the bedrock of the Fed's governance structure:

- **Boards of directors** whose members have strong ties to their local communities
- **Bank supervisors** who are familiar with the challenges faced by community banks
- **Economists** engaged in pathbreaking research
- **Presidents** who can challenge conventional views and cast dissenting votes on the FOMC

Institutional Constraints on the Federal Reserve Banks

- The **voting rotation** is opaque & confusing.
At any given FOMC meeting, most Fed Bank presidents are “*participants*”, not “*members.*”
- In practice, monetary policy is **centralized** and determined by the Fed chair/vice chairs.
- Fed Bank presidents have **no vote at all** on other key policy decisions:
 - *Interest rate on excess reserves (IOER)*
 - *Emergency lending programs (Sec. 13.3)*
 - *Financial regulation*

Example: Main Street Lending Program

Statement (4/9/20): *“The Federal Reserve is using its full range of authorities to provide powerful support for the flow of credit...[and] will ensure credit flows to small and mid-sized businesses with the purchase of up to \$600B in loans thru the Main Street Lending program.”*

Reality (9/27/20): The Main Street Lending facility has extended **less than \$2B** in loans.

Main Street Lending Program (*contd.*)

Congressional Testimony (6/30/20): *“The Main Street Lending program is designed to provide loans to small and medium-sized businesses... such firms generally are dependent on bank lending for credit because they are too small to tap bond markets directly.”*

Reality (9/19/20): The U.S. Census Bureau’s Small Business Pulse survey indicates that **23% of small businesses** across all NAICS sectors need to obtain financial assistance or additional capital within the next few months.

Strengthening the Role of the Regional Federal Reserve Banks

- Each Fed Bank should be a **public enterprise** (no longer owned by commercial banks), with a majority of directors appointed by elected officials within that district.
- The regional Feds should be **subject to FOIA** and oversight of the Fed's Inspector General.
- **Every Fed president should vote on every Fed policy decision**, including monetary policy, financial regulation, and emergency lending programs.