

## FEDERAL RESERVE ACCOUNTABILITY

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The Federal Reserve's unprecedented use of its emergency powers and refusal to disclose crucial details of its rescue operations have focused public attention on the central bank and prompted demands that it account for years of regulatory minimalism, lax supervision and an indulgent approach both to asset bubbles and growing concentration and complexity in financial markets. As a result, public debate has turned once again to the unique features that insulate the Fed from normal levels of accountability to the society it is supposed to serve.

The most prominent of these characteristics is a public-private mix of ownership and governance arrangements that formally grant individuals who are not public officials a central role in creating government policy. In addition, the central bank's murky agency status continues to leave in question the application of basic statutes (such as the Civil Rights Act of 1964) to the Board of Governors, the regional Federal Reserve Banks and the Federal Open Market Committee. Meanwhile, a series of singular exemptions shields the monetary authority from good-government norms in areas such as audits, freedom of information, open meetings, inspector general appointments and advisory committee transparency.

By and large these elements of the Fed's architecture lack a compelling justification. And they have spurred repeated attempts to strengthen reporting, disclosure and oversight mechanisms for the central bank. Although a handful of these efforts succeeded in the past, previous reforms generally have fallen short of establishing genuine accountability – in part because they were not devised or were not executed with the public primarily in mind.

Improving the machinery for Federal Reserve oversight could begin with simple reforms such as:

- removing restrictions on Government Accountability Office audits of the Fed;
- making the Board of Governors' inspector general a presidential appointee;
- exposing the Board's banking industry advisory group to the same public scrutiny as other government advisory bodies; and
- eliminating or narrowing to a sensible minimum the central bank's exemptions from FOIA and the Government in Sunshine Act.

To reinforce these second-order changes, the Federal Reserve should be placed fully within the framework of public sector norms and standards.

- Section 1 of the Federal Reserve Act should be amended to designate the Board, the Banks and the Federal Open Market Committee collectively as an independent government agency, thereby placing the central bank within the ambit of laws and regulations that currently exempt or do not specifically cover it.

Finally, achieving deeper levels of accountability requires a broad base of public understanding about the Fed as well as a robust means of continuing education, evaluation and interaction binding citizens to their central bank.

- One method of obtaining this result would be to transfer ownership of the Reserve Banks to the American people by issuing a single share of a new class of non-marketable stock to each eligible voter in the U.S. on a Reserve District-by-Reserve District basis and authorizing these new stockholders to elect directly the Banks' directors.
- A complementary deep-accountability tool could be created by substantially expanding the study of the Federal Reserve in history, government, civics and social studies classrooms in secondary schools.

### Reference

Schlesinger, Tom (2009). "Federal Reserve Accountability," Political Economy Research Institute, October.