THE POWER AND INDEPENDENCE OF THE FEDERAL RESERVE

Peter Conti-Brown
Assistant Professor
What is the Federal Reserve?
“Anybody feel that the Fed’s out to get us?”

Sen. Rand Paul (R-KY)
Congressional Monetary Policy?

“Who in their right mind would ask the Congress of the United States—who can’t cobble together a fiscal policy—to assume control of monetary policy?”

Richard Fisher, Former President Federal Reserve Bank of Dallas
The Perennial Contest

V.
Functional Reform

- Taylor Rule
- Audit the Fed
- Liquidity Coverage Ratio
- Durbin Amendment
- Zero lower bound
- Negative Interest Rates
- Volcker Rule
- Capital Adequacy
- Swap Push-out Rule
Independence
Standard Account of Fed Independence

Politicians (usually the President)

Central Bankers (usually the Fed Chair)

Legal Separation

Reelection/Legacy

Skill

Technocratic
Metaphors of Fed Independence

Ulysses Contract
The Fed is “in the position of the chaperone who has ordered the punch bowl removed just when the party was really warming up.” William McChesney Martin (Fed Chair, 1955).
Standard Account of Fed Independence...

Politicians (usually the President)  

Legal Separation  

Central Bankers (usually the Fed Chair)

Reelection/Legacy

Skill

Technocratic
The Power and Independence of the Federal Reserve

Federal Reserve System
- Fed Chair
- Board of Governors
- Reserve Banks/Federal Open Market Committee
- Fed Staff (Economists, Lawyers)

Functions
- Price Stability
- Maximum Employment
- Financial Stability/Systemic Risk
- Bank Supervision/Regulation
- Central Reserve/LOLR

U.S. President
Congress
Bankers

Law (Fed. Res. Act) Custom
History Leadership Ideology

Congress
Bankers

Law (Fed. Res. Act) Custom
History Leadership Ideology

Financial Markets
International Central Bankers
Economists

Technical Skill
Ideology
Judgment

Wharton
University of Pennsylvania

Knowledge for Action
Structure/Personnel over Functions/Policy

1. Board of Governors
2. Consumer Financial Protection Bureau
3. Reserve Banks
4. Taylor Rule
5. Fed Staff?
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PETER CONTI-BROWN
Ulysses and the Chaperone: The Independence and Governance of the Federal Reserve
Introduction: Ulysses and the Chaperone
Part I: The Federal Reserve is a “They,” Not an “It”
  Ch 1: The Three Foundings of the Federal Reserve
  Ch 2: Leadership and Institutional Design: From Periphery to Power
  Ch 3: Central Banking by Committee: The Authority of the Fed’s Board of Governors
  Ch 4: The “Double Government” of the Federal Reserve: The Economists and the Lawyers
  Ch 5: The Vestigial and Unconstitutional Federal Reserve Banks

Part II: The 500 Hats of the Federal Reserve
  Ch 6: Practicing Monetary Policy: The Rise and Fall of the Chaperone
  Ch 7: The Once and Future Federal Reserve: The Fed’s Banking Functions

Part III: The Sirens of the Federal Reserve
  Ch 8: The President and the Federal Reserve: The Limits of Law and the Power of Relationships
  Ch 9: Congress and the Fed: The Curious Case of the Fed’s Budgetary Autonomy
  Ch 10: Club Fed: The Communities of the Federal Reserve

Part IV: Reforms
  Chapter 11: The Democratic Demands of Fed Governance: Reforming the Fed by Choosing the Chaperone

Conclusion: The Freemasons and the Federal Reserve