

January 11, 2010

When independence begets accountability

Today's online edition of the *Wall Street Journal* [sums up the state of political play](#) in the realm of monetary policy and central banking:

"Politicians are taking bolder actions to influence monetary policy, signaling that the global financial crisis may end up reining in the independence of many central banks...

"In the U.S., Congress has reacted to a tide of populist anger by calling for greater scrutiny of the Fed's actions. A bill with broad support among lawmakers would subject the Fed to more comprehensive Congressional audits and permit lawmakers to delve deeper into Fed decision-making. A Senate proposal would give lawmakers and the White House more say in the governance of the 12 regional banks scattered around the country."

By pure coincidence, Dennis Lockhart, president of the Atlanta Fed, offered his thoughts on these exact developments in a [speech today before the Atlanta Rotary Club](#):

"I'm referring to the 'audit the Fed' amendments that were passed in the House and introduced in the Senate. The audits would be performed by the Government Accountability Office (GAO)... The Fed has no argument with audits in the conventional meaning of the term. We're already subject to many audits by the GAO and external auditors. In government, the word 'audit' can be misleading sometimes. GAO audits can amount to full-blown policy reviews. Fed operations outside of monetary policy are already subject to GAO policy review, so this proposal is about ad hoc, after-action reviews of monetary policy, potentially frequent. In my view, this notion is not about transparency and accountability. Both are bedrock principles to which the Fed should continue to be held. Rather, this is about politicizing a process that should remain apolitical."

The *Journal* article notes the consensus of students and practitioners of monetary policy...

"Independence is vital for effective central-bank operations, economists and central bankers say. Many decisions, such as raising interest rates to fight inflation, are politically unpopular but considered necessary to effectively manage the economy."

... a view on which President Lockhart elaborates:

"The Fed must have the capacity to make unpopular decisions—to take away the punch bowl, as it were. Many of you remember the circumstances of the early 1980s when the Paul Volcker-led FOMC acted against inflation. One should ask—would Volcker have been effective if the intense opposition to his policies was joined with formal, statutory methods of bringing pressure? The stakes in this issue are big."

The stakes are also big with respect to the second issue mentioned in the *Journal* article, the governance of the 12 Federal Reserve banks. Again, to President Lockhart:

"I am also concerned about ideas that have been floated that could have the effect—if taken too far—of politicizing the input of regional Federal Reserve Banks in policy deliberations. From its inception, the Federal Reserve System was designed to have checks and balances, to avoid concentration of power in New York and Washington, and to give every region of the country an apolitical voice in policy formulation.

"Let me explain how we work to give voice to people like you in the Southeast... I estimate [before each Federal Open Market Committee meeting] we get input directly or through directors from about 1,000 citizens in the Southeast on ground-level economic conditions and the impact of policy."

In many ways, that understates the role our Bank plays as a boots-on-the-ground, independent voice in the monetary policy process. In 2009, the Atlanta Fed president, first vice president, and Research staff members made more than 400 speeches to an aggregate

audience approaching 30,000 citizens in the six states that we cover. We made this effort in the service of two objectives: First, to give the Federal Reserve System a personal face and to explain, as best we could, the hows and whys of Fed actions to a justifiably concerned public. Second, to collect intelligence and feedback, in real time, from the people making real Main Street-level decisions—to give, in President Lockhart's words, "voice to people" in the monetary policy process.

The district bank configuration of the Federal Reserve *is* the democratic footprint of the U.S. central bank. If ill-conceived legislation concentrates more power in Washington, that footprint will surely fade. And central bank accountability will not be strengthened. It will be diminished.

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