BY SAM LOUIS TAYLOR

Independence, If You Can Keep It

Historically, Congress has tended to take an acute interest in examining the structure of the Federal Reserve whenever there is economic turmoil. The economic swing during the COVID-19 pandemic and the current period of elevated inflation are no different. In response, lawmakers and policy influencers have voiced concerns about the Fed's ability to promote an equitable economic recovery as well as its ability to manage inflation. These proposals have spanned the political spectrum, including expanding the Fed's monetary policy mandate into new areas, bringing monetary policy decision-making under additional oversight, and replacing the current structure of the Fed entirely.

At the same time, other lawmakers have supported monetary policy independence. "Given [the FOMC's] charge, their independence is critical to doing it in an unbiased, nonpolitical way," Sen. Kevin Cramer, R-N.D., told the *Wall Street Journal* in April.

In the modern era, the Fed has largely been granted independence to conduct monetary policy without direct interference from elected leaders. What exactly does it mean for a central bank, created by Congress, to be "independent," and how is the Fed in its current form accountable to elected leaders and the public at large?

Congress has mandated that the Fed pursue two objectives in conducting monetary policy: promote the goals of maximum employment and stable prices. Congress has given the Federal Open Market Committee (FOMC) wide latitude in how it pursues those goals. This is what economists call "instrument independence." Political interference in these instruments, many fear, would lead central bankers to be more responsive to short-term demands of politics and could harm the country's long-term economic stability. Economists and historians have argued that insulating monetary policy from political direction results in better long-term outcomes in the form of lower rates of inflation, among other benefits.

This independence has evolved over time. From the Fed's inception in 1913 until 1951, the Fed was much more closely tied to the executive branch. During both world wars, the Fed set explicit expectations that it would help to finance federal spending and support government bond prices. During the Great Depression, monetary policy was largely dictated by Congress and the Roosevelt administration, giving the Fed little leeway to deviate from those instructions. This arrangement continued in the immediate postwar era until concerns over rising inflation led to confrontation in 1951.

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In what is commonly referred to as the Treasury-Fed Accord of 1951, the Fed and then assistant secretary of the Treasury William Martin, himself a future Fed chair, agreed that the Fed could conduct monetary policy without approval from the executive branch. Though political interference in the Fed would continue to fluctuate in future years, this accord marked the modern era of operational independence for monetary policy.

Together with this independence, the Fed is regularly subject to oversight by Congress for its activities and decision-making. The Board of Governors prepares a report on the FOMC's monetary policy actions twice a year, which is accompanied by testimony from the chair of the Board of Governors to both houses of Congress. Additionally, since 2010, the vice chair for supervision has testified to Congress twice a year on banking conditions and the Fed's regulatory actions. The Fed is regularly audited by the Government Accountability Office (GAO) and the Office of the Inspector General, as well as independent outside auditors. Those reports are publicly available. (Congress did create a limited exemption from GAO audits for monetary policy deliberations and actions to avert political interference.)

To provide additional transparency into its decision-making, the FOMC issues public statements on its rate decisions and releases its meeting minutes and transcripts. FOMC members also regularly make public comments and take questions from the media. Most notable is the chair's press conference immediately after each rate-setting meeting.

Proponents of central bank independence concede that this authority must be used responsibly to pursue the goals set out by Congress. "As we move along the path of reform ... it is crucial that we maintain the ability of central banks to make monetary policy independently of short-term political influence," argued then-Fed Chair Ben Bernanke in a 2010 speech. "In exchange for this independence, central banks must meet their responsibilities for transparency and accountability." **EF**