

Reforming the Federal Reserve to Ensure Accountability, Transparency, and Good Governance

The Federal Reserve is America's central bank and its monetary policy decisions are crucial for the health of the economy. However, the Fed's governance structure was established more than a century ago and no longer ensures that the Fed serves the public interest. Unlike any other government agency, private banks have a direct role in governing the Fed. This governance structure elevates the priorities of financial institutions and large corporations over the needs of America's working families. Furthermore, its transparency and accountability are severely deficient, which impairs appropriate Congressional oversight and undermines the public's trust in the Fed. It is time to move forward with a sensible, pragmatic, and nonpartisan approach to Fed reform that preserves its independence and includes the following key elements:

- 1. The Federal Reserve Must Be a Fully Public Institution.** Under current law, commercial banks are the legal owners of the twelve regional Federal Reserve Banks, and they control two-thirds of the seats on the boards of directors of each regional Fed. This must change. Private bankers and Wall Street firms should no longer have an extraordinary influence on the Fed's inner workings or policy decisions. The regional Fed banks should be made fully public entities, and all of their directors should be selected through a process overseen by the Federal Reserve Board and involving the elected officials in each Fed district (*i.e.*, governors and members of Congress). The process should ensure that directors are representative of the public in terms of racial/ethnic and gender diversity and educational background and professional experience. The majority of directors on each board should be affiliated with small businesses and non-profit organizations, including community and consumer groups, labor unions, and academic institutions. Individuals affiliated with financial institutions overseen by the Fed should be prohibited from serving as directors.
- 2. The Process of Appointing Regional Fed Presidents Should Be Transparent.** The board of directors of each regional Fed bank selects its president, who sits on the Fed committee that sets America's monetary policy. Those appointments currently happen in secrecy with no public involvement or accountability; the presidents of all twelve regional Fed banks were reappointed recently in *pro forma* fashion. The process should be reformed so that each board of directors takes nominations from the public, publishes a list of all eligible nominees, and then engages in a selection process that involves genuine public participation through hearings and other forms of input and feedback.
- 3. Set Term Limits for Fed Officials.** The terms of office for Fed officials need to be long enough to insulate them from short-term political pressures. However, some past Fed chairs and many regional presidents have had tenures of two decades or more. All Fed officials—including the Governors in DC and the twelve regional Presidents—should serve one non-renewable term of seven years. This term of office will preserve the Fed's operational independence while fostering good governance and accountability to the public.
- 4. Align Fed Transparency and Accountability with that of Other Key Public Institutions.** The entire Fed should be subject to external reviews and disclosure requirements just like every other key public agency. The Government Accountability Office should produce a regular annual review of all aspects of the Fed's policies, procedures, management, and operations. Such reviews will identify key shortcomings, risks, and opportunities for improvement and will facilitate appropriate congressional oversight. The Fed's Inspector General should be given authority to conduct investigations at all regional Fed banks, not just at the Federal Reserve Board in Washington DC. And the Freedom of Information Act, which currently applies only to the Federal Reserve Board, should be extended to cover the regional Fed banks as well.

These principles are focused on improving the Fed's governance and public accountability, but there are other potential Fed reforms that also warrant careful consideration, including approaches for ensuring that the Fed's monetary policy strategy is systematic and transparent. Moreover, a bipartisan commission should examine the overall structure of the Federal Reserve System and the division of responsibilities between the Federal Reserve Board and the Federal Open Market Committee.