

Peterson Institute for International Economics

**Conference: Central bank independence in practice**

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**[00:03:47.06] - Adam S. Posen**

Start on time for our worldwide audience. And, uh, grateful to have you all here today. You can feel free to get food and drink, uh, throughout, just not in the first 30 seconds. So everyone could take their seats, please. Hello everyone, and welcome to the Peterson Institute for International Economics. Welcome to our distinguished in-person audience. Welcome to those of you joining on C-SPAN and globally on our livestream. We're very pleased today to bring you this high-level conference on Central Bank Independence in Practice. I'm Adam Posen. I'm the president of the Peterson Institute, and I've had the privilege of working with John Cochran of the Hoover Institution and David Wilcox of our institute to put together today's extremely substantive and engaged group. We bring together people on this topic of central bank independence in much the way that there have been reconsiderations of many things that were taken for granted in recent years. This is not because we believe in conspiracy theories or major failures, but it is because when there are serious policy matters at stake affecting the welfare of the American people, as well as our economic understanding, it is important to try to deal with them in an objective fashion and deal with evidence.

**[00:05:41.10]**

And for that reason, we brought together a broad range of people today to be speakers in discussion, people from academia, younger scholars with new research on central bank independence, older scholars who started in this field, and practitioners from the Fed and elsewhere who understand what practice really means. The— we deliberately did not include political appointees or elected officials of either party, but in the spirit of open tent, we did invite every single FOMC member that if they wish to participate, they could do so. And we're very pleased to note that several are with us either right now or will be with us through the day. They have all understandably declined to take a formal role in the proceedings, but we will have open mics, and should any of them be moved to— if Austin decides he's got a zinger he can't resist putting out there, or if Neil decides that he needs a reality check, we will welcome that as well. Well, joking aside, central bank independence in practice is a very high-stakes issue. And it has

become a very fraught issue politically in terms of resonance around the world. And as with some other things, like arguably vaccinations or other things where there seem to be a scientific or technocratic agreement, there suddenly is a lot of doubt.

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And I think part of the reason for this doubt is obviously broader social forces about expertise and the perceptions, somewhat justified, of failures that the society and our economy has been through in recent years. But I think it's also because independence is such a big word. People hear independence, they think of the Declaration of Independence. They think of issues of what is the executive branch's power and role. But as Stanley Fischer and Guy Debelle pointed out 30 years ago, what we're really talking about is instrument or operational independence, not goal independence. This isn't about the Federal Reserve setting whatever it wants to do. This is about how much and to what degree, in what ways the Federal Reserve is left to do what it needs to do to pursue the goals set by Congress. Now, you could make an analogy that it's like a surgeon or a pilot. You leave them to do their work and then you ex post evaluate. God forbid there was a crash or a mistake. The problem is, of course, that inherently there are more mistakes. And because inherently dealing with the economy rather than a cockpit or an operating room, the central bank has far less control.

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But ironically and realistically, based on the insight of Ken Rogoff from 40 years ago, that actually makes the independence even more important. Because if you distrust your surgeon or distrust your pilot or just irrationally have a fear of flying, in the end, that has no effect on whether the plane gets there or the surgeon does the job. However, if there is ongoing distrust of the central bank, then the inflation comes whether or not the central bank is doing the right thing. You end up worse off and get nothing for it. This is the dreaded unanchored expectations that central bankers are always concerned about. So, the empirical work that we all built on through the years was always about specific aspects over time, starting with Alesina and Summers, and then the work by Alex Cukerman and co-authors and many others. I was one of the contributors. Contributors to this literature, right up through some recent studies led by Felice Unsal and others at the IMF and the OECD. And what you find is something that makes sense. The very overt politicization of the Fed or of a central bank does have inflation costs. So if you allow central banks to juice the economy right at the time of an election, if you force central banks to make direct purchases of government debt, rather than in the secondary market.

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And very clearly in the data, if you turn over the governor, the leadership of the central bank on a very political rapid basis, that also raises inflation expectations and raises inflation. I know Thomas Drexel's got some new work on this. And we've seen this just happen in recent years in Türkiye, in India, where the executive forcibly turned over the central bank governor in quick succession, and this was associated with higher inflation. But that doesn't solve the problem we're here for today in two senses to recognize that. The first is simply that it's not enough to say, okay, don't do the really obvious political stuff. The issue of debate is where in practice does that cut? What can the central bank do? How should it be accountable so that it doesn't just not do the overt partisanship, but isn't interpreted as and isn't subject to excessive partisanship? But the second point, going back to my own dissertation 30 years ago, is, as I put it, declarations are not enough. That you can't just set it and forget it with independence. There has to be a political constituency in your society that supports the independence, or else the independence will not be credible and will not last.

**[00:12:11.05]**

And that is ultimately the purpose of why we're here today, is to get some degree of common understanding, or at least common public debate, debate on a legitimate evidence-based basis in good faith for what should be the case to the public, to the courts, to Congress, for where and how central banks should be kept independent, in particular the Fed. And so rather than mom and apple pie about independence against overt politics, we have serious questions to address. That John and David and I have brought together this group to do. Does the evidence for the benefits of central bank independence hold up through recent data? What should be the constitutional and legal extent of independence of the Federal Reserve as part of the broader legal framework? Does the current system of accountability, including the current ways of appointing and overseeing Federal Reserve banks, serve democratic accountability? How narrowly should independence be defined, in particular between financial supervision, financial intervention, and monetary independence? And finally, as we'll close today, how have central bankers in practice found it to cope with the pressures of politics and pursue an independent policy? Are there things we missed with our theoretical and academic work.

**[00:13:44.35]**

That is our mission today. I again am extremely grateful to our numerous distinguished speakers and guests who are joining us today and all of you who are listening. We hope this will be a major contribution to the public discussion of these issues. We'll begin with a panel moderated by my colleague David Wilcox, longtime chief economist at the Federal Reserve Board, head of the Division of Research and Statistics. And for the last several years, Senior Fellow here at the Peterson Institute for International Economics. David.

**[00:14:26.08] - David Wilcox**

Thank you, Adam. Questions about central bank independence have been debated in the United States for a very long time. In fact, as I think Gary Richardson will point out, These issues have been disputed since before there was a central bank. A frequent through line of that history is a sense that we've never quite gotten it exactly right. And that theme persists, I think, today. Against that backdrop, I was particularly interested to run across a contrary view that while we might not have gotten it exactly right, we might not be so far off. This view comes from a surprising source known to some of those who are more my vintage than younger people, namely a subcommittee that was chaired in the 1950s by a persistent critic of the Fed, namely Representative Wright Patman. And to understand how surprising this is, you need to know that Patman sponsored a whole succession of bills that would have corralled the independence of the Fed, in some cases making it more subservient to the President, and in other cases making it more subservient to the Congress. He was sort of ecumenical in his approach to attacking the independence of the Fed.

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Here's what the subcommittee report concludes: The final aim, of course, is not that the Federal Reserve System should be independent, but that the country should have a sound economic policy. The independence of the Federal Reserve is a relative, not an absolute concept. It is good insofar as it contributes to the formulation of sound policy and bad insofar as it detracts from it. Measured by this standard, the subcommittee is inclined to believe that a degree of independence of the Board of Governors about equal to that now enjoyed is desirable. A stunning statement, it seems to me, from such a harsh critic of the Federal Reserve System. And now the paragraph does go on to cite some views that I disagree with, so in the interest of time, I'll airbrush those out of the record. With that, I'd like to introduce very briefly the four distinguished members of our panel. Uh, we will proceed ever so creatively in alphabetical order, beginning with Francesco Bianchi, who's Professor of Economics from Johns Hopkins University. Next will be John Cochrane, Professor of Economics at the Hoover Institution, Stanford University. Randy Kroszner, Professor of Economics at the Booth School at the University of Chicago, former member of the Board of Governors here in the United States and current member of the Financial Policy Committee at the Bank of England.

**[00:17:26.14]**

And finally, Gary Richardson, Professor of Economics, University of California, Irvine. And I want to reiterate Adam's expression of thanks to all of these people for being here and in several cases for braving our rather tenuous air traffic control system to get here.

**[00:17:46.35]**

So Francesco, the floor is yours.

**[00:17:48.34]**

Please come up to the podium.

**[00:17:59.34] - Francesco Bianchi**

Thank you, and perfect pronunciation of my last name. We had a little bit of a debate in the beginning. So thanks a lot for having me, uh, in this great event. So my wife was commenting on the choice of the date because today is Halloween, and I told her this is very scary stuff, so it's very appropriate. Now, but jokes aside, so this is very important. In order to understand why it's important, maybe we should remind ourselves what we had before central bank independence was, let's say, part of the institutional framework. So this is a plot of inflation for OECD countries. I highlighted two South American countries and the US in yellow here. So in the '60s and '70s, inflation was all over the place. It was particularly true for emerging economies, but it was also true for the United States. We had high and volatile inflation. Inflation came down in the early '80s for advanced economies. It took a bit longer for emerging economies. It was more like in the '90s, but after that, we have experienced a prolonged period of low and stable inflation. And this, to some extent, took a break with the pandemic.

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But you can see that compared to what we experienced before, this is really not so concerning, at least at the moment. So now if you plot the same countries in terms of real interest rates, what you notice is that in the '60s and '70s, real interest rates were consistently low, sometimes in the negative territory. And then they actually jumped up, I would say, in a discrete way in the early '80s, and again for emerging economies in the '90s. So what this suggests is that, at least in part, this shift in inflation dynamics is the result of the central bank becoming all of a sudden more aggressive toward inflation. And of course, this is only possible to the point— in the moment you grant some independence in pursuing the goal of low and stable inflation. So now it's natural to ask, what would happen if we were to lose central bank independence once again? So to put things into perspective, I think we first need to understand what we mean with

central bank independence. So David already— David and Anna have already mentioned some of these. And the other important aspect is independent from what, from whom?

**[00:20:19.37]**

So in my mind, when it comes to the conduct of monetary policy, with independence we mean an institutional arrangement in which we create some arm's-length separation between the fiscal authority and the central bank. This doesn't mean that the central bank is above any kind of authority. In fact, when we mean independence, we mean operational autonomy in pursuing goals that are set by elected officials. And I think that's the way we want to structure our society, that goals are set by elected officials because these are the ones that are ultimately accountable to electors. So in other words, we can think about central bank independence as a second-best solution. Ideally, what we would like is the monetary and the fiscal authorities to work together for the greater good. But in reality, this doesn't work very well. The reason is that politicians have a little bit of a biased view when it comes to policymaking, in the sense that they always prefer more spending than less spending. They always, they're always very proactive and want to stabilize a recession. They are less prone to cool down an expansion. And when you put all of this together, you will get an inflation bias unless the central bank has autonomy in pursuing the goal of price stability.

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So essentially, the operation of an independent central bank is a safeguard against fiscal excesses. And importantly, markets rely on that. It's not even a matter of what we like, it's what financial markets at the end think when central bank independence is lost. So now all this reasoning, I think, is commonly accepted for emerging economies, but there is mounting evidence that similar dynamics occur also in advanced economies. So I have some work myself, John has done some work himself. So in an early paper with Cosmin Ilut from Duke University, we interpret the shift in inflation in the US from the '60s and '70s to the early '80s as a movement from what we call a fiscally-led policy mix to a monetary-led policy mix. More recently, so that paper stops in 2008, so I wanna just bring to your attention some more recent work in which we try to isolate what we call fiscal inflation, the amount of inflation that essentially arises because the central bank implicitly or explicitly is accommodating excessive fiscal spending. So this is, in red here you have inflation dynamics, in black you have what inflation would've been if only what we call unfunded fiscal shocks had occurred.

**[00:22:55.29]**

So it's basically a measure of fiscal inflation, the amount of inflation that we get as a result of unfunded fiscal spending. There would be spending that is not backed by future taxes. So as you can see, in the '60s and '70s, fiscal inflation was high, but it was also increasing. In a sense, it was on an explosive path. Things started shifting toward the end of the '70s but they really had a big— fiscal inflation really had a big drop in the early '80s. We typically associate this with the appointment of Volcker, but that occurred in '79. So I think it's fair to recognize that the election of Reagan also played a role. There was really a shift in society with respect to what was tolerable in terms of inflation and also the size of the government, but that's a bit more complicated issue at this point. Now, interestingly, it's not that fiscal inflation disappears. Typically, it goes up after recessions, and— but there you might say that that's part of stabilization policies for which monetary and fiscal authorities work together to kind of boost the economy out of the recession. In the post-millennial period, on the other hand, we observe some interesting pattern, and this kind of result emerges from other papers too, that we seem to have that fiscal inflation is relatively elevated, but it's counteracting some deflationary pressure.

**[00:24:15.44]**

And where is this deflationary pressure coming from? Well, our interpretation is that this is the increasing level of globalization of the US economy with the rest of the world. So it's definitely interesting to ask what kind of inflation we would have had post-financial crisis if we didn't have increasing level of globalization, not globalization, increasing level of globalization. The reason why this is interesting is because we are at the same time trying to separate the US economy from the rest of the world to some extent and remove central bank independence and have a bold fiscal policy.

**[00:24:48.48]**

Plans.

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So we know what happened in the pandemic. So with the pandemic, we, we have that a large share of the increase in inflation, at least through the lens of this model, is the result of unfunded fiscal spending. A second question is to ask, does political pressure work? In the sense, when politicians put pressure on the Fed, do they have an impact on financial markets and on actual behavior of the Fed? So this is a complicated question. And also, we would like to understand in which sense it works. So President Trump, from this point of view, he gave us a little bit of a unique opportunity. I want to be clear here because I don't want to get political. President Trump is not the first president to put pressure on the Fed, period. What is different about President

Trump is that he did it through social media. That gives us a unique opportunity to measure exactly what happened in financial markets using timestamps from Twitter, now called X. So I, unfortunately, I cannot go back and change the title of the paper. So on the left-hand side, you have the cumulative change in federal funds futures.

**[00:25:57.34]**

And on the right-hand side, you have some episodes, some particular tweets. And you have different colors representing different maturities, with the red color representing longer maturity. As you can see, the vertical bar is the time of the tweet. After the tweet, you had this discrete jump in federal funds futures downward. What that means is that markets were revising downward expectations about the future federal funds rate. So this tells us that markets were expecting that the pressure on the Fed was going to induce the Fed to change its behavior. Now, if we look at the actual behavior, it's a bit more complicated. So we have here the Trump's inauguration, Powell's announcement, and then the first critical tweet of the Fed. So what we see is, and then we have the path of the federal funds rate in black. What we see is that after Trump started attacking the Fed, the Fed paused and then it reversed its course. Of course, we know there were many other things happening, and correlation is not causation. So what we try to do is to include these tweets into a VAR and see how much of this reversal was caused by these tweets.

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And we find that part of the reversal was due to this pressure. Now, what could be the logic of what is happening? I don't believe that the FOMC listens to what Trump says. But if there is enough pressure coming from financial markets, meaning if markets expect rates to go down, we know that the FOMC pays attention to market expectations, sometimes with the idea, well, if we don't cut rates or if we don't pause on the increases, we are going to disappoint markets. And that's as if. If we were doing a contractionary shock. So in this sense, it's an open question if part of this reversal was the result of the pressure. Now, move forward, second term. So these are data that I collected for this talk that basically tries to replicate the same kind of analysis but for Trump's second term. And what we find is that, again, these tweets generate a shift in market expectations downward. Now, what is interesting, the effect is stronger at longer horizons, but if we look at longer yields and mortgage rates, meaning if we look at the 10-year Treasury yield, we don't find that much of a change.

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So what this suggests is that while the president might be able to force or induce the Fed to do something in the short run, the ultimate goal should be to bring down the borrowing cost for families, and this depends on mortgage rates and longer yields. This seemed to move, if anything, in the opposite direction. Why? Well, I think we kind of got an answer during the introductory remarks. Markets rely on central bank credibility to keep inflation low in the long run. If this credibility is getting lost, you are going to have an increase in inflation expectations and in premium. And in this sense, it's important to consider how different the situation is today with respect to where we were during President Trump's first term. Now inflation is stubbornly above target, while before it was stubbornly below target. So let me conclude. So central bank independence is necessary for low and stable inflation. The issue here is not whether central banks make mistakes or not. I mean, central banks at the end of the day are composed of human beings like me and you, and of course they can make mistakes. The key question is that if whether replacing these human beings with more political agents is going to represent an improvement,?

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And I think history teaches that the answer is no. A certain level of political pressure, I think, is unavoidable. I mean, that's how societies work. But institutional norms are important. In this sense, it's in everyone's best interest— and I would stress also in President Trump's best interest— to preserve the myth of the autonomous Fed, to use the word of Richard Nixon. Political pressure can lower short rates but cannot do anything for long-term interest rates. They instead depend on market expectations on what will happen in the future. And so if the Fed were to lose the credibility for the low and stable inflation, then rates will move in the opposite direction. Long-term rates will move in the opposite direction of what President Trump wants. Why is that? Well, we just discussed market expectations and premium. So now, interestingly, markets still seem to be fairly confident that Fed independence will prevail. And I think this is in part because of the names that we saw for next Fed chairman were reasonable and everybody recognized the importance of central bank independence.

**[00:30:36.14]**

Thank you.

**[00:30:44.58] - John H. Cochrane**

Thanks, everybody. This is fun. Thanks for coming. I'm going to advertise there's a longer version of my remarks on my Substack. I'm going to try to hit the 10-minute rule. And I'm grateful to follow Francesco because, as they say in the University of Chicago, so much for the

real world. Now, how does it work in theory? Fed independence isn't an absolute virtue. We can't have a completely independent agency that prints money and uses it as it sees fit. Central banks can be too independent. I think of the ECB here, where when the European voter figures out how much fiscal transfers are going on, they're going to be in trouble. And they can be not independent enough. If you think lack of independence is a panacea, I ask you to only look at the SEC, and that's at least not a panacea. The Fed's independence is not absolute. It's limited, and it's constrained by accountability, the cycle of appointments, a limited mandate, and limited tools. Price stability and employment means— and nothing else— No matter how important you might think climate change or reshoring manufacturing might seem, the Fed must ignore those issues. Printing money and handing it out can really stimulate the economy.

**[00:32:02.15]**

Confiscating money can stop inflation cold. But taxing, spending, and economic regulation have to be the province of politically accountable parts of the government. Let's also admit there is plausibly a problem. The Fed has greatly expanded its activities, stepping into fiscal and political territory. Quantitative easing shortens the maturity structure— that's fiscal policy. Mortgage-backed security purchases are credit allocation. Bailouts and market support transfer money from taxpayers to overleveraged financial institutions. Yeah, the Fed expanded unwittingly in the press of events. But it never retrenched. And the Fed expanded voluntarily. This wasn't an issue of more independence. Financial regulation is stuck in too big to fail and too powerful to issue equity. Uh, the Fed did wade into political issues like climate, and the Fed has presided over a banking collapse, two big bailouts, the SVB fiasco, 10% inflation against the 2% target, And so far, it's really only offered, "Well, it's not our fault," sort of excuses, not a deep analysis or a set of reforms. And excuses mean that the Fed is powerless to prevent a recurrence, which we'd rather not happen. So, there is, I think, an important question. How should the terms of limited independence be reformed?

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And we face a choice. The Fed could remain expansive, powerful, and political, but then it has to face more direct direction by elected officials, like the Treasury. Or the Fed could return to a narrower scope of activities consistent with current or even greater independence. As you might guess, I favor the latter course. But just raise the drawbridge, hoist the independence flag, defend the status quo against the barbarians at the gates is not going to be tenable for long. Now, why does independence matter? Let's go back to school. And the rationale is actually weaker than we suppose. The limits matter more. Most people say, "Well, insulate the Fed from political pressure. Don't let the president goose the economy ahead of the elections." But governments are tempted to hand out stimulus checks, tax exemptions, regulatory favors, loan

forgiveness, and a whole bunch of other goodies ahead of elections. But we don't entrust those to independent agencies to do whatever they want. Moreover, political pressure is the same thing as democratic accountability when your party is in power. If independent central bankers run amok, our elected representatives must have the power, eventually, to correct them. Independence must be limited, as it is.

**[00:34:47.33]**

The Fed is there, by Congress, for Congress's purpose. Now, economists answer time consistency and pre-commitment precommitting to lower inflation in the future gives you a better inflation-unemployment trade-off now. The interaction of fiscal policy with monetary policy is an even clearer precommitment question. If you precommit to pay bondholders and not inflate away debts, that makes the government more able to borrow in the first place. And if you look at the history of central banks, independent central banks have been instituted it costs far more to pre-commit against debt monetization and financial repression for fiscal problems than to forswear Phillips curve stimulus. But again, other policies, like capital taxes, sunk investments, have even clearer pre-commitment problems. Once an investment's made, the government always wants to tax capital, default on debt, or grab property, just this once. Well, knowing that, people won't build or invest. But again, the Treasury isn't an independent agency. We have other mechanisms for those pre-commitments. Independence alone is also a weak pre-commitment mechanism. Independent central bankers, with the government's preferences, will want to inflate every bit as much as the government does. The only way independence works to pre-commit against inflation is if the government appoints central bankers who are much more hawkish than the government itself.

**[00:36:15.13]**

Such choices are not evident in appointments and Senate confirmations, to put it mildly. Nobody wants hawks. So, limits on the Fed's ability to inflate are, in the economic analysis, more effective pre-commitments than just independence, do what you want. Kidlan and Prescott's famous article was titled "Rules Rather Than Discretion." It wasn't titled "Appoint an Independent Fed and Let It Loose." And we look at the history, I think we should look not just at the independent, but what were the terms of the independence? What was the limited mandate? How was it enforced?

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How was it accountable?

**[00:36:52.05]**

Independence is an important part of that package, of course, because monetary policy can't be reduced to rules. The government can say where to go, but not how to get there. But the constraints on Fed action, that remains the meat of pre-commitment. Now, going forward, I think we're overdoing the Phillips curve story from the 1970s. Resisting fiscal inflation is going to be the issue going forward. At 100% debt-to-GDP ratio, each point of real interest rate is 1 point of GDP additional deficit. President Trump is already calling for lower interest costs on the debt, as after World War II. Will independence alone save us? Well, no. In 2020, the Fed quickly monetized \$5 trillion in new debt and kept interest rates low for a full year. Sort of World War II monetary policy. The Fed didn't intend inflation, but it did choose policies that over and over have had that effect. It didn't worry about inflation. And the Fed cooperated voluntarily and enthusiastically with the administration. This wasn't an independence problem. Moreover, resisting a fiscal inflation is much harder than resisting Phillips curve temptations. The decision to inflate versus enact spending cuts or tax hikes or let a crisis burn, that's intensely political.

**[00:38:10.26]**

It's going to require a much stronger anti-inflation mandate from Congress signaling the elected branch's desire against inflation. And the mandate has to include Congress's commitments to repay its debts without inflation, too. Yet, sometimes inflation is the least bad option. We wouldn't want to lose World War II on the altar of price stability. So Congress has to stand ready to declare and take responsibility for the rare exceptions. When the doctrine of independence was developed, monetary policy had few fiscal implications. So, it could be technocratic and a bit apolitical. But let's face it, that's not our world anymore. This is going to be a tough issue going ahead. Excuse me. Crisis intervention has a similar pre-commitment problem, even clearer maybe. Once a crisis has started, bailouts are the only way to stop it. Yet, if the government predictably bails out creditors and props up asset prices, then people have little incentive to avoid risk and keep some liquidity around to buy on the dips, and the government's forced to intervene more and more often. Again, independence alone won't work. The Fed won't voluntarily abstain from intervening in a crisis just to worry about moral hazard the next time around.

**[00:39:30.01]**

People will only believe the Fed and the Treasury won't intervene if they can't intervene and don't have to intervene. And once a large enough crisis has started, not intervening is unwise. 1933 was pretty bad. And that's actually a good case of too independent a Fed, because they didn't intervene. Again, what are you going to do to enforce the pre-commitment rules? Limited mandates have to be the centerpiece of the pre-commitment mechanism. Clean up, at last, the

overleveraged financial system so the Fed doesn't need to intervene so often. Add serious limits so that the Fed cannot intervene, at least without explicit congressional declaration that the rules are suspended. And independence is still part of the package. The administration's likely to bail out, uh, too often. Independence is icing on the cake, but it's not the whole cake. So we should be focusing our analytical and historical efforts on the mandates and the limits, not just the independence. Gold was a big pre-commitment mechanism, and it had a whole bunch of bad parts, like 1933, but it was an interesting one to study. The mandate to hold down interest cost after World War II and coming soon, hmm.

**[00:40:46.32]**

What does price stability mean anyway? Was it wise for inflation targeters to drop employment and add numerical accountability? Financial stability mandate is growing. What does that mean anyway? What is financial stability? No one ever loses any money? How is it limited? What limits on the Fed's tools should there be? Independence is the icing on that cake. So bottom line, you'll be happy, Jim. I think the Fed should remain about as independent as it is, um, but that independence has to be accompanied by a more explicit limited mandate, limited tools, and stronger accountability. Only that package will address the Fed's expansion into fiscal and political territory while maintaining and enhancing the pre-commitments that are needed for successful monetary policy in financial regulation. Oh, you're dreaming, John. Congress is dysfunctional. But especially in this room, let's not rush too quickly to autocracy or aristocracy in place of checks and balances. Thank you.

**[00:42:16.32] - Randall S. Kroszner**

I was visiting with my niece and her children last night and trying to figure out what they would dress up for Halloween. I suggested a central banker, and that even scared them. So there was no way that they were going to do that. I couldn't be more delighted to be at this conference. Thank you so much to Adam, Jim, and the others who are organizing the conference. Really, really delighted to be here. I'm honored to be part of this great group, and as well as I'm really glad that this is a topic that we are focusing on right now. What I want to do— well, actually, the previous two speakers have already talked a lot about the definition of independence, so I'm not going to go into great detail there. But I do think it's important to make sure that we don't just think of independence as an end in and of itself. I sometimes use this phrase that it seems like there's a lot of clutching of pearls, like, how dare you question the independence of the Fed? And along the lines of what And what was just said, the Fed is part of the federal government.

**[00:43:32.14]**

It must be an accountable institution. So I think there's sometimes these notions that the Fed should be beyond criticism or it's inappropriate to have it criticized or criticized so explicitly. I don't think that's correct. I think it needs to be subject to criticism and accountability. Now, of course, you want the criticisms to be fair and appropriate as much as possible. And now people have also said, well, this is something different, what we're experiencing now. Well, maybe in terms of being on social media or in the public, but I believe I was the only person on the panel who was a governor during the global financial crisis. And if you think that people weren't saying pretty tough things to us, sometimes explicitly, more directly behind closed doors, I'm not so sure that that's really accurate. People could be quite, quite tough and really quite, quite angry. And not unsurprisingly, during crisis, you have to find someone to blame. And in some sense, getting along the lines of some of what John was talking about, the Fed was sort of set up to be the whipping post when things go wrong. So it's not only that it's good to have this monetary policy and financial regulator over there Congress can then blame someone if something goes wrong.

**[00:44:52.20]**

It's not their fault. It's not their fault that they changed the regulations. It's their fault that the Fed implemented it inappropriately, didn't see the crisis coming. Of course, during the run-up, it's the Fed's fault for holding the private economy back. And so if you want to be loved, don't be a central banker. That's not the role. Also, I think we have to be very clear, and this also gets along the lines of both what John and Francesco were saying, you have to be careful about what exactly we mean by independence. There have been a lot of very good outcomes from banks that are not fully independent. A lot of the banks in emerging Asia, like Taiwan for example, is not formally independent, but it acts in a way that I think suggests the political consensus. And this gets back to what Adam said, and that's going to be a theme that I come back to. You could have all the structural stuff that you want, But it has to be that there's a political consensus for a particular type of outcome. If you don't have that, it doesn't matter because there's no such thing as pre-commitment in government.

**[00:45:55.37]**

The government can change things. The Federal Reserve Act could be changed at any moment. We were very mindful of that during the global financial crisis. We wanted to make sure that we didn't go beyond our mandate. We were doing a lot of new things at that time. And we were very, very concerned about going beyond the mandate. Because we didn't want Congress to say, "You've gone beyond your mandate, we have to clip your wings." Now, of course, they have in some sense done that a little bit with Dodd-Frank, along the lines of what John has said. So now, many of the programs that were done by the Fed on its own during the

time that I was there now need a congressional or, well, at the very least, executive branch approval. I think that's something that is very, very important. It's the broader political consensus. It's not the narrowness of the particulars of the institution. And I think ultimately, it comes down to the people who are there and the approaches that they take. And ultimately, it's about credibility. It's not about narrowly independence. It's about getting back to what Francesco was saying, what is the impact on the markets?

**[00:46:59.57]**

Because what we really care about is ultimately the impact on interest rates, inflation, expectations, investment, growth, employment. That's what we really— that's the sorts of things we really care about. And that's where I'm thinking about some achieving the outcomes and trade-offs and some of the market and then market responses. So, what I want to do is I want to do something much, much cruder than what Francesco did over the recent period. I will be using ocular econometrics rather than systematic econometrics to look at a few of the the series over the last— roughly over the last year since President Trump was elected. And so, I'm going to look at— the charts begin on November 1st. And the criticism of the Fed in the recent period intensifies in April of '25 after the so-called Liberation Day. But I also want you to see from President Trump's election, because certainly President Trump raised some critical issues about the Fed before the election. And so longer horizon inflation expectations, 5-year, 10-year, and 5-year, 5-year forward.

**[00:48:11.47]**

So I think we've got—

**[00:48:13.30]**

can't really see that there.

**[00:48:16.58]**

But you see that—

**[00:48:17.53]**

so the dip down, that's in April. And sort of, well, a bit of move up in April, then a bit of a dip down in April with all the trade and tariff issues. But basically, they've come back to where they were or even a little bit down. So it's hard to see, despite a lot of pearl clutching, an impact on longer-term expectations of inflation. Yield curve— so have we seen a 10-year minus 2-year or

3-year go up because maybe it's that, well, it's not the level, it's the yield curve? I really can't see much of a change there. Much of a term premium. I'm always a little wary of talking about term premium because basically, term premium is what's left over after you use the things you understand to explain the interest rates. And then we have a very nice formal term for it. We call it term premium. But it's really the unexplained part. And so yeah, Adam knows this well. And so— but you could say that that's where a lot of these other pieces come in. It's kind of the unexplained part, the uncertain part. It's hard to see much of a movement there either.

**[00:49:25.56]**

Long-term nominal interest rates. Here, you've certainly seen the 10-year rate move down. The 30-year rate moved up and marginally higher than it was, not a particularly liquid market. But still, I want to be fair and say that it's a little bit more mixed here. And then the dollar, which is, I think, a deep liquid market where you might expect concerns about high inflation or interest rates being held too low for too long be manifest. Certainly, you see— so we go back to when President Trump is elected, then a move up in the dollar, move down in the dollar, and a very sharp move down during the Liberation Day issues. But then basically almost completely flat from the end of April right there. I mean, no more than a percentage point to move in either direction. The one area where you could say that, ah, it's gold that is manifest in the concerns— but if you look at where the movements are, certainly there's a little bit of movement up with the Liberation Day. But then it's pretty flat along going forward. And then a sharp movement up starting at the end of August, beginning of September, but then a big movement back down.

**[00:50:37.29]**

I think this is not a very deep liquid market. I don't put a lot of stock in the— in gold price movements beyond things like demand for gold around Diwali or other things like that. So I'm wary of taking too much from that. But again, I wanted to be fair. That's one market where you might see some of this. Now, I had updated my slides. And I had an additional slide that came in here. But I guess it didn't quite make it in here. And so what I wanted to do is try to talk a little bit about some of the— some of these broader institutional issues that I was talking about, that Adam has also talked about and was part of his thesis work many years ago. What we see really is the key is institutional credibility. I think where the institutional credibility comes in the US, and that's why I'm really delighted that structure of the conference today is about the role of the Supreme Court and the ability to remove different presidential appointees. The so-called Humphreys Executor decision that was from the 1930s that has been raised again was in— I had this in the previous chart or the chart that's the missing chart.

**[00:51:57.50]**

In May 22nd was when the decision of Trump v. Wilcox, not our Wilcox here, a different Wilcox from the National Labor Relations Board, The Supreme Court said, "Yes, it's fine for the president to say this person can be removed from office." But a lot of the discussion in that argument that was made by Wilcox was about the Federal Reserve, and said that if you do this to me, then you have to do this to the Federal Reserve. And the Supreme Court was extremely, extremely clear. They explicitly said, "We disagree with that." We think that the Fed is different because of its quasi-private structure and because of the long history related back to the First and Second Banks of the United States. I'm not sure about that history because the First and Second Banks of the United States, of course, famously were closed down because they were seen as drawing money out of the hinterlands and bringing them to the center, or bringing them to Boston, to Philadelphia, to New York. And the Fed was explicitly set up to not be like that. That's why you have this regional Federal Reserve structure and the quasi-private structure that is there.

**[00:53:12.29]**

But I think the markets take a great deal of comfort from that. It'll be very interesting to see how these things roll forward. But in my mind, that's a very important part of thinking about the independence issue, thinking about the credibility issue, because that comes in May, May 22nd, and I think that One of the reasons why we don't see any of these series start to move up after the criticism, public criticism of the Fed intensify, is largely to do with believing that the Supreme Court will take a reasonable and balanced approach. And I put that into this broader context that even after— so this is some work that Ken Kuttner has done, we'll go into the details of it— even after controlling for central bank independence, You see that government effectiveness, kind of the severity of the— the clarity of the institutions, the stability of institutions is crucial. So, independence, means to an end, it's part of a political process. We haven't really gotten to talk about supervision regulation. I know that gets more political, but I think it's extremely important precisely for crisis management reasons for the Fed to have some role in that.

**[00:54:16.50]**

They don't have to have the only role, but if they're being asked to pony up a lot of money in bailouts or other things, if they don't have a supervision regulation role and really understand what's going on and see if these institutions, very difficult for them to make reasonable choices. And you can't just raise that up every 10 years when there's a crisis. They have to have an ongoing role. Credibility and outcomes are part of this broader institutional consensus. And I think the muted reactions are due to the markets being much— being maybe perhaps cynical that it's always part of a political process. They know that there's always political pressure on, but they believe in broader institutional credibility. Thank you very much.

**[00:55:14.22]**

Thanks.

**[00:55:15.42] - Gary Richardson**

So I'm going to— Randall's comments really lead very nicely into mine. Because I'm going to explain to you why the central bank— why the Supreme Court has some role in deciding this issue of independence of our central bank. So the idea of central banking independence existed long before we had a central bank in the US or before we even had a nation. When our founding fathers debated creating our current Constitution, they did talk about this issue, and they couldn't agree. Some of the Founding Fathers wanted to set up a national bank that was independently governed, and others of the Founding Fathers feared that any national bank would be captured by some pernicious political or private interests. This dispute resulted in ambiguity. To complete the Constitution, the Founding Fathers agreed on a set of words, which I allude to in this slide. Really both sides thought they had won. So the dispute continued right after we set up the government. And it continues today because of the ambiguity. I want to explain to you why people were afraid of creating a national bank, sort of a proto-central bank. And those issues and intuition they had are very similar to today.

**[00:56:42.40]**

Today, we have better data, but a lot of the economic ideas are similar. Main concern— one of the main concerns was inflation. There was a worry that if you create a national bank, that would allow the government to monetize its debts and create inflation. And that had happened in many countries around the world in the past centuries before we had our Constitution. And it happened in the US. So there was also big concerns about redistribution, particularly from creditors to debtors. The Founding Fathers understand that the central bank controls interest rates. And if you change interest rates, that redistributes wealth from asset holders to borrowers to savers. They worried a lot about political power, that if you create this concentration of wealth, there will be a lot of political interests that will be poured into it and that will influence the politics. And they also worried a lot about corruption. And how if you created this concentrated wealth and an organization that can have a huge influence on the wealth of people around the nation, how much of an incentive to corruption that would cause. I'm going to say the people who debated this are people you would recognize and your children are taught about in school.

**[00:57:59.59]**

So as soon as the United States was created, Alexander Hamilton was appointed Secretary of Treasury, and he proposed creating a central bank. Thomas Jefferson was the Secretary of State, and he was decidedly opposed to that. As Randy mentioned, we had a couple of different attempts at creating a Bank of the United States. So the first Bank of the United States was proposed in the first Congress, and they very narrowly passed. So the vote to create the first Bank of the United States passed by a single vote. Same happened in the second, and then its constitutionality was debated. I mentioned this to show you how the issue was really in dispute, but it's also very fundamental to the structure of our government today. You might not remember the Supreme Court cases about the early banks, which you're— in middle school, they teach in America, particularly *McCulloch v. Maryland*., which enshrines in our law the understanding of the Necessary and Proper Clause in the Constitution and accepted Alexander Hamilton's understanding of that, that despite the ambiguity in the Constitution about the authority of Congress to set up a central bank, that the Necessary and Proper Clause allowed the federal Congress to do this.

**[00:59:31.14]**

*McCulloch v. Maryland* also sets up the boundaries between the federal and state governments.

**[00:59:36.21]**

So the—

**[00:59:39.09]**

now I want to tell you the 19th century solutions to independence. So there was huge fears that if you created a national bank, that it would be captured by some kind of political or private interest. And those fears were so great that a lot of people in the US did not want to found a central bank. The solutions they come up with were first to have a quasi-private structure. So both of the banks of the United States, they issued stock, 80% of which was sold to private parties and 20% was owned by the federal government. And then the federal government had a role in appointing the directors to these banks. But these banks, there was a clear insulation between the policymakers and politicians. So the politicians, the president and the Congress, they helped to appoint directors to the bank. Then the directors selected the bank's chief executive officer, who actually made the policy decisions. These banks also had limited powers. There was federal supervision, but not federal control. And they were set up with a limited lifespan. When they were set up, just like when the Fed was set up, it was given initially a 20-year charter.

**[01:01:01.53]**

And the two prior attempts at a central bank, they went away because when it came up to time to recharter, they weren't rechartered. The Federal Reserve, when it was set up in 1913, the charter was to expire in 1933. But in 1927, people were really excited about the Fed and decided to recharter it and give it a perpetual charter. If they had waited a few years, right, decision might have been different. So, I— now I want to talk about the debates over the Federal Reserve Act in 1913. So here again, the main debate in 1913 is about the political structure of the central bank and how independent it would be. There was really two big opinions at the time. The one that ended up dominating was the one pushed by the House of Representatives, and that's The head of the committee there was Carter Glass, and he wanted to have a regional structure, extreme independence from the executive branch, and a very vague mandate. The other side of the debate, led by Senator Robert Owen, actually wanted the Federal Reserve Board to have much more of a say and much clearer mandate about monetary policy.

**[01:02:14.20]**

Owen lost the debate then, but he really won today because the central bank that we have today is really the one that was envisioned by by Robert Owen. And I would say when you read the congressional debates about setting up the Federal Reserve Act, the fears that they had are very similar to the fears that we have about what happens if the central bank is going to be captured by political or private interests, and very similar to the fears that were expressed by the founding fathers in the century before. People are really worried about inflation and monetization of debts. And the types of redistribution that would happen when you create a central bank and you begin to concentrate financial wealth and its effects on American politics. And then the possibility that there could be a lot of corruption. The solutions in 1913 were very similar to the solutions that had been adopted before. Within 1913, a big difference was though they went and created a regional structure. So 12 independent central banks But otherwise, the ideas were very similar. There was— the operational decisions would be made by chief executive officers. The chief executive officers would be selected by boards of directors.

**[01:03:27.57]**

The boards of directors would have some representatives on them that were elected by private interests, in this case, the bankers, and some representatives that have been chosen by the Federal Reserve Board, which in turn was chosen by the president with the advice and consent of the Senate. So, they— in 1913, there was a big discussion, right? How do we insulate the decisions of the central bank from private interests and public interests? And it's interesting, in 1913 is the first time I see in the congressional debates, they use the word independent. So

they begin to say, we want the central bank to be independent. And the definition there is very clear and is very similar to the intuition we have today that the independent central bank should pursue the public interest as defined by Congress, but independent of other interests, independent of political interests, independent of their own private interests, independent of bankers. And there's a long list of the many, many people they should be independent of. And I put some of here. But so the idea of independence they had in 1913, right, it's very similar to the idea we have today. And then the debate focuses particularly on the issue we care about today when the Federal Reserve is reformulated in 1935.

**[01:04:52.49]**

And so here, I'll just— so John Cochran had said, hell, sometimes independence is good or sometimes independence is bad. In the 1930s, politicians and economists around the world had decided that central bank independence— and central banks around the world were extremely independent before the Great Depression. And they were not independent after the Great Depression because people decided that central bank independence had been a big problem. And then Francesco had showed you how we've changed our opinions again starting in the 1970s. We said, no, now we need central bank independence to control the inflation. So over time, opinions of economists or our body politic about the value of independence have really changed. But in 1935, there was a lot of concern that as we reformulated the Federal Reserve to centralize control of monetary policy in the Federal Open Market Committee, that this would give the ability for a single individual, the President of the United States, to dictate monetary policy. And it raised the specter of all these fears that had lingered in America for so long. And so the main debate in 1935 about the structure of the Fed was how to insulate it from the president.

**[01:06:08.56]**

And so the decision there was to reformulate the Federal Open Market Committee, which had been formed a few years before, but initially consisted just of the 12 reserve bank presidents. And so the main debate between the Senate and the executive branch and Roosevelt was how many bank presidents versus how many members of the board of governors would be on the FOMC. And this was negotiated personally between Roosevelt and Carter Glass. Another thing they did was the FOMC is allowed to choose its own chair. People haven't talked about this much, but Congress is very clear that the FOMC selects its own chair. It doesn't have to have the— chair of the Board of Governors, the chair. And actually, they did not envision that the FOMC's chair would be the chair of the Board of Governors. And that's— the FOMC is allowed to do that and supposed to choose its own chair to keep independence from the president. The other issue, which we're talking about more now, which— because the Supreme Court is going

to make decisions about this or about the for-cause clause, which protects the governors from independence. That, I think, it's an important issue, but the ability of the president to remove officers of the United States or officials, that has been debated since the Second Congress.

**[01:07:36.51]**

This was also a discussion that had been had in the Constitutional Convention, and the founding fathers couldn't agree.. And they debated this in the Second Congress. And the Supreme Court's opinion about what we meant in our society about the president's ability to remove, that has changed many times. And it had changed twice in the lifetime of the people who wrote the Banking Act of 1935. So I know it's important. But I think the Federal Reserve is designed to operate independently regardless of what the Supreme Court decides in this. In this case. Thank you.

**[01:08:44.49] - David Wilcox**

We budgeted a little bit of time for dialogue among the panel members, but those of you here present in person, please be formulating your penetrating questions because we have some time for that as well. John, I'd like to start with you and put you a little bit on the spot. You, for you advocated the Fed should have a more restrictive mandate. Tell us more about if you were advising members of the Congress today, what would you do? How would you change price stability, maximum employment? How would you curtail more effectively, in your view, the actions of the central bank? So that it doesn't transgress as you perceive it to have done?

**[01:09:33.59] - John H. Cochrane**

I got an out, right?

**[01:09:36.07] - Lawrence H. Summers**

Not quite.

**[01:09:39.07] - David Wilcox**

I'm looking for specific legislative language.

**[01:09:43.44] - John H. Cochrane**

So I do think that, with deference to Larry Summers, who is about to say absolutely not, just we'll do whatever it takes, I do think that the definition of price stability should be something that

Congress should take up. If you ask me, it should be a price-level target, not an inflation-rate target, but certainly not make up your own target and hit that on a forward-looking basis, bygones are bygones, at a minimum average inflation over a certain time with accountability. This is just inflation targeting 1990 and a much narrower definition of what is systemic risk to the financial system. Which I think has expanded way too far.

**[01:10:30.36] - David Wilcox**

Thank you.

**[01:10:31.02]**

It's, uh, overwhelmingly tempting to come back with follow-ups, but we'll, uh, we'll save that. Francesco and Randy, if I understood your presentations correctly, you actually were quite consistent in finding a lack of impact, a lack of dramatic imprint of President Trump's communications on longer-term interest rates. And I'd like the two of you to quiz each other a little bit about whether you're actually in agreement and what we should make of that. Does that actually mean— should one interpret that as meaning, ah, central bank independence actually doesn't matter for economic performance if we can't detect any noticeable imprint under these most dramatic circumstances that we've ever had. Francesco, why don't you start? But you can direct your comments as much to Randy as to the audience.

**[01:11:30.51] - Francesco Bianchi**

Sure.

**[01:11:31.25]**

Yeah, I think we are in agreement in the sense that we both concluded that markets don't seem to be in a state of panic with respect to central bank independence, future inflation, future inflation risk. You know, there might be some evidence of some movements in premium, but yes, Randy plotted the whole time series and we don't see any trend up, we don't see any dramatic shift. I would not interpret that as that means that central bank independence doesn't matter. I would interpret in the optimistic way that markets seem to be confident that there is so much at stake that ultimately the person that will be chosen to lead the Fed will be reasonable, where that means that while this person might be fine with a short-term view about what we should do with short-term interest rates over the next, say, year, this person is not going to give up the idea of central bank independence or price stability in the long run. But I think we have ample evidence that central bank independence is crucial. For price stability and also economic performance more broadly.

**[01:12:46.23] - Randall S. Kroszner**

So I in part agree with what you said and in part disagree, because I do think that— I think we certainly didn't find a lot of evidence of long-term impact, but that doesn't mean to say, oh, it doesn't matter. Part of my point was that it's much more explicit now, the criticism of the Fed, but As I said, you know, you were there too, Dave, that during this time period, during the global financial crisis, there was a lot of criticism of the Fed, maybe not quite as explicit, although in some cases quite explicit. I mean, certainly when I was testifying before Congress, you can go back and look at some of those hearings, and there was a lot of criticism. And the first response by Senator Dodd was to dramatically change the role of the Fed. And then we had a 5-year after the crisis conference at Chicago Booth. And I asked him about that. And he said, well, he just couldn't get enough votes, so he went the other way. And so it was really not because of an ideological change. He was very concerned about that. And there were many members of Congress who were.

**[01:13:53.41]**

And so I think I would argue that it's not as dramatic as it seems. And I think for what Francesco just articulated, the candidates that have been suggested for the Fed chair are broadly seen as reasonable ones by the markets. And also, I think that the markets have taken comfort in the way the Fed— with the Supreme Court has approached the Humphrey Executor issue and saying that the Fed is different. It hasn't said exactly how it's different, and we'll find out more about that, maybe not the full monty, but we'll find more about that in January. Well, as the hearings— when the court hearing is, we'll have the decision probably by June. And I think that's— it's part of this broader consensus, broader institutional stability, credibility, not as much about the particulars of the independence of the Fed or the name-calling that might happen.

**[01:14:52.39] - John H. Cochrane**

Can I follow up?

**[01:14:53.28]**

And I'll phrase this as a question. Because this is for both of you. I was fascinated by your presentations. First of all, let's remember that yields, long-term yields have never forecast inflation. They didn't go up ahead of inflation in the '70s. They didn't go down ahead of deflation in the '80s. And they did not see the inflation that happened in 2021. Neither did the Fed's forecast or anyone else's forecast. So I take not that much comfort from it. The deep question, suppose that interest rates are lowered by Will the President. Kind of surprising he wants to flirt

with inflation given what happened to Biden, but we'll leave that alone. But how long does lower interest rates take to reflect itself in inflation? The empirical evidence, the theory on this, the history on this is kind of weak. It can go quite a long time. And I'm curious both your views on how we interpret yields given that they have failed in the past as a signal. How long do you think it takes before you light the fire and light the match and the fire actually happens. And of course, to what extent are markets, when they are calm, are calm about fiscal events, not monetary events?

**[01:15:56.50]**

Why are long-term bonds so low? Well, I guess it's faith in the institutions that sooner or later Congress will solve this problem. But that's a fiscal issue, not so much a Fed independence issue.

**[01:16:10.16] - Randall S. Kroszner**

Want to start, or—

**[01:16:10.50] - Francesco Bianchi**

No.

**[01:16:12.11]**

You start right now. I said it before.

**[01:16:15.17] - Randall S. Kroszner**

So for sure. As we know from University of Chicago, we have Milton Friedman's famous phrase that monetary policy impacts with long and variable lags. Much like the term premium, that's just a very fancy way of saying we don't know. But it sounds very, very august and academic. So I think that's right. We don't have a good feeling for that. But generally, things would show up, at least in inflation expectations. They might be wrong. But if there are concerns that this could lead to higher inflation, you'd see some of that there.

**[01:16:46.28]**

And you might see it.

**[01:16:48.32]**

In yields. But, of course, as you said, they are by no means perfect predictors of where things are going to go. And markets can get things wrong. That was one of the charts that— tables I didn't have. During the— different hypotheses for explaining this could be markets aren't paying attention. I think they're paying attention. Two, markets could be wrong. I mean, although I'm a University of Chicago economist, I was at the Fed during the global financial crisis. And it's hard to say that the market's got everything right in advance of that. So they may just be mispricing and not understanding. Or it could be the explanation that China—

**[01:17:23.34] - John H. Cochrane**

As I understand, the Trump team's case is, we're going to lower rates, that's going to hold down interest costs on the debt and keep us going, and then all sorts of wonderful things are going to happen, and don't worry about it.

**[01:17:34.40] - Randall S. Kroszner**

So their interpretation would be that— so that's why it's much more about credibility of the overall package and the institutions rather than specifics of Fed independence. I think Fed independence is not— You know, that's in and of itself, that's not the key thing. The key is what are going to be the outcomes. And I think the markets, at least right now, thinking that the outcomes will be relatively benign. They may well be wrong, but I think that's what they're thinking.

**[01:18:04.31] - Francesco Bianchi**

Briefly.

**[01:18:05.46]**

Sorry.

**[01:18:07.48]**

It's brief because I agree with what Randy said. I'm personally surprised the markets are so optimistic about the future. So personally, I have stocks and short-term interest rates, and I don't have any long-term interest rates. But Marcus might be right. But I agree with John. They were surprised both in the '60s and '70s, and they were surprised in the other direction in the early '80s. So they might be getting it wrong. I interpret it as they are optimistic about the future, but might be wrong.

**[01:18:34.44] - Gary Richardson**

Can I just point out here so that Stephen Meeren has recently been appointed to the board, and so he has this his plan, which he's announced, which is to shift the inflation abroad by getting foreign central banks to hold a lot more US government bonds and US debt. And then the cost of monetization is not going to be borne by the American public, but it's going to be borne by foreigners. And that Trump, he's a genius negotiator, and he's going to, as part of his tariff negotiations, insist that the foreigners, or particularly foreign central banks, are the ones going to buy all the bonds, right, whose value will be inflated away. So is it possible that then the markets are thinking there's something to this plan, which the chair of the council has announced?

**[01:19:25.38] - Randall S. Kroszner**

But wouldn't that be reflected perhaps in weaker value of the dollar?

**[01:19:30.31] - Gary Richardson**

You would think so.

**[01:19:31.34]**

But we—

**[01:19:34.59]**

And we just—

**[01:19:35.48] - Randall S. Kroszner**

at least since April, since sort of the Liberation Day issues and then the pullback, there basically hasn't been any movement. So again, the markets may well be wrong. I mean, John accurately points that out. And as I said in the slide that wasn't there, I had mentioned that that is a possibility. But I think they think there's sort of a broadly benign outcome from the full set of things, maybe not the specifics of—

**[01:20:01.19] - John H. Cochrane**

I don't get that story. They can't buy our dollars unless they ship us goods. So that's trade deficits. I thought the story was that exorbitant privilege was a horrible cost to the US, which means we want them to hold less of our debt. Gary, hold that thought.

**[01:20:17.10] - David Wilcox**

It's Halloween. I want you to conjure the ghosts of Carter Glass and Robert Latham Owen. From over a century ago, what would you guess— I'm asking you to speculate, they won't be here to contradict you— but what would you guess their thinking today would be, if you can divine an answer, about what mistakes they made in drafting the original Federal Reserve Act, and how might they respond to John Cochran's call for a stricter mandate?

**[01:20:56.01] - Gary Richardson**

So Robert Owen would certainly like John Cochran to be chair of the Federal Reserve Board of Governors and would like— because Owen advocated that in 1913 and then in the '20s and the '30s that the Federal Reserve adopt a price level target. So Owen was— and he proposed this several times. Irving Fisher, it was one of his ideas that he convinced Robert Owen of. So that was, I think, very explicit. So Robert Owen would be under— he wanted more federal control, but he wanted federal control to have a strict price level target. So he said Congress should— the main thing that the Fed should do is Congress should pick a price level or pick a price index, and then Congress should instruct the Federal Reserve to use its tools over monetary policy, open market operations, reserve requirements to target that price level. So I think Robert Owen writes very clear what he would think because he's wrote this a bunch of times, and it's just what John had advocated. Carter Glass, it's harder to understand what he would think because even at the time, people had a lot of difficulty interpreting the words that he wanted to use as the mandate for the Fed, which was to accommodate business.

**[01:22:16.28]**

So Carter Glass wanted the regional Fed. He wanted less federal control. And he had this very vague mandate. And so Carter Glass, my impression— you've read a bunch of his stuff— he didn't seem like a very self-reflective person. So he would, I think, be insisting, like he did for 30 years, the words he chose were right. And if everyone just did what he said, It would be good. So I think he would tell us we have the wrong mandate, we should use his mandate and actually follow his mandate, which he complained no one ever did because they didn't understand it, and then we'd be great.

**[01:22:56.43] - David Wilcox**

We have time for some questions. Now, the question is not a sermon, it's not a speech, it's an English sentence followed by a question mark, and it's brief. We will have You're invited to stand

at the mic in the center of the floor, and we also have a room mic. Please identify your affiliation and state your question.

**[01:23:24.59]**

Thank you so much.

**[01:23:25.40] - Audience**

Pedro da Costa from Market News. Is it possible that the reason that yields didn't tick higher and inflation expectations didn't rise is that—

**[01:23:35.30]**

or specifically yields— is that traders are caught between the risk of a less independent Fed, which would lead you to sell the long end, but also the possibility that the Fed will be so captured next year that they'll actually be engaged in yield curve control, which would require you to actually be, you know, long the long end.

**[01:23:55.33]**

So is that a possible explanation for the lack of reaction? Thank you.

**[01:24:03.32] - David Wilcox**

Oh, sure.

**[01:24:04.05]**

That's actually a good idea. Why don't we take 3 questions? Thank you, John. We'll take 3 questions and we'll give panelists discretion to answer.

**[01:24:12.23]**

Pick and choose.

**[01:24:14.10]**

Sure.

**[01:24:14.58] - Audience**

Hi, Christopher Gaber at Associated Press.

**[01:24:16.54]**

I wanted to ask, I understand this may be not as big a focus for this panel, but on the role of Congress and the lack of any pushback or apparent pushback much from Congress so far.

**[01:24:29.43]**

Are they missing in action?

**[01:24:30.46]**

Would you like to see more from the from the Hill on this issue.

**[01:24:34.57]**

Thank you. Hi, my name is Masaki at Georgetown University.

**[01:24:42.13]**

Uh, uh, certainly also, uh, uh, uh, social media, uh, very impact to, uh, market reaction with emotion.

**[01:24:50.29]**

So my question is, how does digital populism define, uh, limits of, uh, IDB, so it's an independent central bank, independence through market reaction.

**[01:25:11.45] - David Wilcox**

Since you're the last person standing, quite literally, why don't you pose your question? Thank you.

**[01:25:19.56] - Audience**

Bob Bruscombe here with Central Bank Central.

**[01:25:23.18]**

I want your reaction to this observation that the Federal Reserve the Fed has made worse policy because it has pursued independence.

**[01:25:31.50]**

I know that might on the face of it seem pretty outrageous, but the idea here is that Federal Reserve is very concerned about its independence, and it has guarded it jealously.

**[01:25:41.22]**

And this has led it to be unwilling to admit that it makes mistakes.

**[01:25:45.12]**

And because it doesn't admit it makes mistakes, it doesn't learn from its mistakes, and therefore keeps making the same mistakes over and over again.

**[01:25:51.33]**

And if the Fed had better specified independence, it wouldn't have to worry about admitting that it made mistakes.

**[01:25:59.24]**

I won't bother to give you any examples, we all know what they are, but I'm wondering about how—

**[01:26:04.32]**

whether you think independence has been pursued improperly by the Fed and led it to make worse policy rather than better policy.

**[01:26:11.51] - Adam S. Posen**

Thank you.

**[01:26:13.25] - David Wilcox**

Why don't we proceed in reverse order? Gary, anything you want to pick off there. Is your mic on, Gary?

**[01:26:26.01] - Gary Richardson**

So there was the question about the role of a Congress and lack of apparent pushback. I agree. Congress has looked like it's not pushing back that much. But the congressional role in this process really hasn't started. Trump cannot take— under current federal law, Trump can't take control of the board of governors of the FOMC without the Senate's consent. And so I think the Senate is well aware of this, and they may push back. The Senate has rejected nominees to the board of governors from both parties recently. But right now, this issue really hasn't come up. Steven Mirren is actually a pretty credible— you might not agree with all his policies, but he's a credible and competent person to be in that position. The Senate doesn't have to get involved now, and the Senate and Congress really haven't been asked to be involved. I think now they've done what they probably need to do, which is not much until the issue comes onto their plate, which it may in January if the Supreme Court decides that Lisa should be removed immediately. From the Federal Reserve Board of Governors, and that would be a time they would push back.

**[01:27:47.41] - David Wilcox**

Randy?

**[01:27:49.53] - Randall S. Kroszner**

I should have added in, and kind of coming with a broader institutional credibility, that exact issue that you were talking about, about the Senate confirmation process, because exactly as you said, there have been candidates from both Republican and Democratic presidents who have not made it through the process. So, that is another check that I think I think is important in there and probably impacts the choice set that the president has thought about for who might be a replacement for Jay Powell. Pedro, you basically said it's difficult to price the risk, and I think that is right. There are a lot of different crosscurrents. I mean, doing the kind of ocular econometrics that I did, it is— that is sort of the furthest possible from holding all other things being equal. But I think that you might see some of it at least manifesting in expectations of inflation or, depending on your theory, you know, if it's Mearns' theory, in the dollar. And so I would think it might be manifest there, even if interest rates are a very complex sort of thing. And that's why I didn't want to just use one particular series and also looked at different horizons.

**[01:29:01.55] - John H. Cochrane**

Yeah, these are great questions. Yield curve control, certainly a trader has to think about that. And when inflation starts coming out, especially from fiscal pressures, what do governments do? Financial repression, yield curve control, you get a long period of low interest rates while you're suppressing inflation. So that's a possibility no matter how you look at it. Congress is

definitely asleep. And I think that was my complaint. When they interview the Fed, they are more often likely to say, "Why don't you print more money and send it to my district?" rather than, "10% inflation, we told you price stability, what happened here?" More deeply, a mandate is not once and for all. It's a negotiated and interpreted document. You write down some general principles, sort of like a constitution, then the Fed does something, and if Congress doesn't object, that becomes its new tool and mandate by precedent. And after 20 years of the Fed, I don't know, bailing out or whatever you're unhappy about, well, if Congress never objected, then that is part of the mandate. So, Congress needs to wake up and continually renegotiate the mandate. The last is, on the last question on independence, The Fed has not looked into what happened.

**[01:30:23.58]**

An independent institution tends to be timid, and it tends to be protective of its independent— of its institutional prerogatives. After 10% inflation, where was the— after Pearl Harbor, there was a what happened here. There wasn't much of that after inflation. Well, in today's Washington, you could— and if you want to keep your independence, you can't be honest about we made mistakes. So I don't blame the Fed. But that is the way things go.

**[01:30:48.43] - David Wilcox**

Francesco?

**[01:30:50.06] - Francesco Bianchi**

Yeah, I would like to add something brief about yields control. So that is definitely a possibility that we don't see much happening in long-term yields because of the possibility of yield control. But we don't see much happening even in long-term inflation expectations more broadly. So even if we look at surveys, there doesn't seem to be this sense that the world is going to be significantly different. And again, to me, it's an optimistic view. We'll see if— if it's a correct view. On Congress, that's actually a very interesting point. I mean, Congress, some Congress members have been among the harshest critics of the Fed. So that's why there is a lot of political pressure that comes from Congress too. And I think many Congress members would find it a little bit funny now to side with the Fed, you know? So I think that they find themselves a little bit in this weird spot in which they want independent central bank now, but they were, you know, very critical before. There is also, I feel like, lack of accountability in this. So I gave this speech, I think, Jackson Hole 2 years ago, 3 years ago, in which I was saying there was not much the Fed could do to control inflation post-pandemic, because if you dump in \$1.9 trillion fiscal stimulus on the economy, what else can you expect?

**[01:32:05.20]**

And I actually mentioned that the risk there is to create stagflation dynamics, for which you push the economy into a recession, you accumulate more debt, more inflationary pressure, and so on and so forth. So this is going back to what John was saying. So the Fed should definitely be accountable, but the problem is like the political system and society and politicians more broadly should also be accountable for their decisions. And just, it's very easy to blame the Fed ex post.

**[01:32:33.18] - David Wilcox**

David Wessel, you have the, privilege of the last question, and we'll give one panelist a shot at answering your question. One quick observation.

**[01:32:46.04] - Audience**

John, I don't think your assertion that climate is political can go unchallenged to the extent that climate has economic and financial bank regulatory supervisory things. My question is this: What is the Fed's reaction supposed to be when the government runs irresponsible fiscal policy.

**[01:33:08.48]**

The Fed's mandate is to price stability and maximum employment.

**[01:33:16.31]**

In Europe, Jean-Claude Trichet basically withheld monetary policy until he could get the fiscal policymakers to do what he wanted. The Bernanke view was, you screwed up the economy, our job is to do our best to achieve the goal of maximum employment and price stability.

**[01:33:34.07]**

So in that circumstance, what's the right way for the Fed to respond?

**[01:33:39.08] - David Wilcox**

John, since you were a named co-conspirator, you get the opportunity to respond.

**[01:33:44.37] - John H. Cochrane**

Well, climate is not political, but climate policy is intensely political. What do we do about it is political. Do we have a carbon tax? Do we subsidize electric vehicles? Do we tell banks they all have to have Scope 3 disclosures of how their third-order customers release carbon? That's intense.

**[01:33:59.56]**

It's absolutely political.

**[01:34:01.28]**

And as you're about to see, it's about to change. Now, the fiscal one is really the hard question. And I want to emphasize, that is going to be the issue going forward. Does the Fed resist fiscal pressures to inflation, or is it a pre-commitment mechanism for, no, you government, you got to raise tax revenues, you got to cut spending, you got to enhance economic growth, you got to let some crises burn. We're not going to print money to bail out this fiscal problem. That's going to be the hard one going ahead, and it's— you can't just put it at an independent Fed. You have to be very clear that that's what you want out of the Fed. Please join me in thanking our panelists.

**[01:36:21.56] - Randall S. Kroszner**

Can I make 3 fast— 3 observations quickly?

**[01:36:24.55] - John H. Cochrane**

I was gonna let you decide.

**[01:36:26.59] - Lawrence H. Summers**

Yes, before we—

**[01:36:28.06]**

before we start. Um, first, I think the inflation of 2021 and the failures of regulation are much more intellectual problems than they are problems of politics or problems of institutional design. There's a market, the inflation swaps market, where you can see what the world thinks about inflation. There are surveys of professional forecasters. I think what the Fed thought about inflation in July of 2021 was kind of a dumb thing to think on the evidence of that moment. That is what I said at the time, so I've got some credibility, but I was isolated on the outside. Virtually everybody, including the market, agreed with the Fed. So the idea that the solutions to not

having that again run through anything about institutional design or political insulation is, I think, more wrong than right. And I would make the same kind of argument, not quite as strongly, with respect to financial accidents. Second observation, I am not at all sure that quite, I mean, I understand why at some level, and it's always good to discuss these things. We are having a conversation about the difficulties and the problematic aspects of current Fed independence. Of all the things that are happening in the United States of America that are problematic from a legal or constitutional or viable functioning of the society with proper accountability or structure to generate good outcomes.

**[01:38:37.00]**

The existing status quo Fed and its flaws of running over its mandate, John, despite how excited you are, is not among the top 100 problems that the nation faces. That does not mean that there are not imaginable subordinations of the Fed to politics that would be among the top few problems that the nation faces in the political realm. But the problems with the existing structure that excite you so much in terms of the need to contain the mandate is, it seems to me, rather misguided to think that that is what is central in the conversation. The third observation I would make is be wary of the narrow Fed theory for reasons that are kind of like the reasons for being wary of the narrow bank theory. There's a famous idea in regulation that we should make banks be narrow. You know, like, I don't know the stuff as well as some people in this room do, but basically the idea is that the assets are T-bills and stuff like that and the liabilities are short-term. And so how can it possibly fail? Because you make the assets be right and then you say everything else is supposed to go on in the rest of the economy and we'll rely on the market and the rest of the economy or something and we'll have a safe, stable banking system.

**[01:40:18.56]**

And the problem with narrow banking is not that it will fail to achieve a safe narrow banking system, it is that there will be financial chaos outside the banking system, which will then be completely unregulated. That's the problem with the idea of narrow banks. And the problem with the narrow Fed theory, if you could achieve it, is that what you will do is remove from the deliberation of a whole range of lending and financial activities, the people who are likely to be most responsible, sensible, and apolitical as it is done. If you take the Fed out of anything that could possibly be regarded as capital allocation, what you will get is a Reconstruction Finance Corporation controlled by the president. And I don't know why that's better if you're the kind of person like you, John, who thinks that when you politicize anything about money or anything about much anything, it ends up being done in much worse ways. The central bank of a country is usually the repository of the most financial expertise that that country's public sector has, and

it is the most natural source of financial firepower. And there are just a large number of issues that arise in a country where those things are called on.

**[01:42:01.46]**

Uh, take something I've got extensive experience with, bailing out other countries. In the context of financial crises, engaging with the stability of the exchange rate. There isn't an alternative that, in my view, makes any sense to, in those spheres, there being political engagement on those sets of questions. Yes, I agree with you. That there were exposed excesses of capital allocation decision-making in the TARP— not the TARP, in the pandemic period. I do have that view. But I would say two things. I've devoted excessive resources in retrospect to my life insurance over the last 30 years. But it's a good thing I did it. It was a wise thing to have done. And some part of that activity, I think, is well understood as an insurance policy against contingencies that didn't come due. And more importantly, it's not like it was unblessed politically by the administration of the time and that was part of it. So my view is, yes, when the Fed gets— starts to say that part of what should determine monetary policy is differentials between different groups' unemployment rates, I think that's a mistake. Yes, I think that particularly in Europe, but to some extent here.

**[01:43:52.12]**

I think that, uh, the idea that a bank might lose money because of some climate thing that was caused by, uh, climate change over 20 years has been seized on to find a nexus for being relevant to a hot problem. And yes, I think that was a mistake. And when a regional Federal Reserve takes a position on a regional political educational issue, yes, I think that's a mistake. But in the grand scheme of all the things that there are, those bits of overflow seem to me to actually be quite small. And the much larger issues are that the economics profession got inflation wrong, that the markets and the economics profession were judging what were deeply damaged financial institutions to be healthy. In the spring of 2008 and allowing him to distribute substantial resources even when mark-to-market accounting would've told you that there were egregious problems. And I just think the idea that we're gonna make huge progress by nuancing and calibrating around on the precise structure of the central bank mandate, I don't think it's where the biggest problems are. So I'll just offer those as observations. I don't know that I'm allowed to debate with the moderator or not, but I guess I just did.

**[01:45:58.33] - John H. Cochrane**

Of course.

**[01:45:58.46]**

We're here to have fun, Larry. So I hate to have too much agreement. Off the top.

**[01:46:06.28]**

You are exactly right.

**[01:46:07.50]**

The top 100 issues facing the republic, this isn't it, but we were convened to a conference to talk about how we should rearrange the deck chairs on the first-class section of the Titanic. That's what we're talking about.

**[01:46:21.09] - Lawrence H. Summers**

Wait, but before we do that, I think what you and I can probably agree on and what I hope every single person in this room can agree on, which is a rare thing among economists. Were there to be acceptance of the idea that the Fed would subordinate— subordinate itself to unconventional ideas about monetary policy driven and generated by the executive branch, of the United States on an ongoing basis that would, with overwhelming probability, be adverse to the interests of the Republic. And that, that is a higher order issue and a higher order concern than any of the nuances to which we're about, uh, to turn. And I just think that we shouldn't allow the debate about where it should be on the mandate and just how much of a Stackelberg leader or follower or whatever it should be on the deficit to— which are important issues to discuss, worthwhile issues to discuss. None of it should stop us from starting by recognizing and highlighting that ground truth.

**[01:47:53.31] - John H. Cochrane**

Whose ideas are correct and whose ideas are unconventional is, in a democracy, not something that you get to pronounce on, is the great problem here. The Fed, as you said, can be wrong. At some point, the elected branches have to bring the Fed back from being wrong to being right. So, I don't think it's that easy. Let me ask you, you did say— because you mentioned intellectual differences as opposed to political difference, and I think you're right there. But in both of them— so let's think about the inflation question. You are right, the Fed was not thinking we're going to run a state contingent default via inflation. We're not going to monetize debt and inflate our way out of this. But the case for pre-commitments, as back in the maligned, correctly, gold standard pre-commitment, or the precommitments of pre-war central banks that weren't allowed to buy Treasury debt is that we will not let you follow policies that historically lead to inflation,

even if you don't think they will lead to inflation in this moment. I don't think the Fed in 1941 to 1951 thought it was causing inflation. It was helping out the government in the way that everyone thought, but those policies led to inflation.

**[01:49:08.07]**

So that's the point of precommitments is that When things are calm, you don't follow policies that are known to lead inflation. You don't necessarily just go on the whim of the time. Similarly, with finance, you brought up the— I agree with you— the cycle of ever larger bailout and ever larger leverage that we have is an intellectual one that the intellectually— the consensus, as you put it, thinks, well, we just need another 100,000 rules of rules and regulations, and we will learn to spot interest rate— raw interest rate risk covered with— backed by uninsured deposits, as opposed to thinking, well, maybe the problem is just too much debt, not enough equity overall. You made fun of narrow banks. The case is to allow narrow banks, not to force narrow banks, which the Fed did not allow, and then the uninsured depositors were in SVB. So, you know, even that case doesn't seem that strong.

**[01:50:09.39] - Lawrence H. Summers**

Okay. So just to clarify, I am 100% with you on the questions about permitting narrow banks. All right. So we agree again. We are in raging agreement on permitting narrow banks. There are some who think that associated with deposit insurance and all of that, there should be pressure for the whole thing to be narrow banks. And that's what I was raising a question.

**[01:50:40.31] - John H. Cochrane**

I like to call it money finance banking, not narrow banking.

**[01:50:43.14] - Lawrence H. Summers**

But on permitting narrow banking, you and I are in complete agreement. So on practices and pre-commitment, I think the question is, how do you feel about Things that my— these things are sort of trade-offs. And when you pre-commit and have rules, the good news is that you increase your credibility, and the bad news is that you reduce your flexibility. And my view is that the world comes at us in all kinds of ways, and that the pre-commitments end up being pretty strong and costly on the one hand. And I have an aspiration, which is that we commit ourselves not to do things that in the judgment of markets and experts will be substantially inflationary. And so if the problem we had was that the breakeven inflation market in July of 2021 was flashing red on inflation, but the Fed had its theory of transitory and whatever. I would say, God, we better constrain those people because they don't listen and they don't pay attention and all

that. And that, that was a strong argument for institutional change. But I'm much more prepared to, as the price of having some flexibility, live with a set of rules that de facto will ensure that the Fed doesn't do things that in the consensus view are substantially inflation risky.

**[01:52:45.21]**

And I think the benefit of locking in the defying of consensus is on net negative. And so that is the reason for the structure of my belief. And then I think the issues are different on the regulation and the bailouts. I am much, much, much, and I consciously chose 3 muches, less confident than you are about the efficacy of depositor discipline as a way of keeping banks healthy if only depositors are going to be haircut at the right kinds of moment, I am less confident than you are that this sense of nobody will be there to protect things will somehow lead to more stability in the future rather than towards even faster exits at the first hint of a problem that lead to greater kinds of problems. So, I'm not completely satisfied with the status quo, but my direction would be more towards market-based regulation than towards the moral hazard fundamentalist agenda, which to my knowledge, has relatively few successes to its name in almost any sphere.

**[01:54:37.29] - John H. Cochrane**

Well, let's put you in charge. And you're there now. The rest of us in the financial market, we know that Uncle Larry is going to come for a bailout. All we got to do is say illiquidity or fragmentation enough, and support from the Fed is coming. Why should we keep some liquidity around to buy on the dips? We know the Fed will keep the price is up when the time comes? Why should we, you know, keep 1 cent more— issue 1% more equity than we need to? If you're in charge, what you want as a central banker is that nobody believes a bailout's coming, and then you have a big mop after the fact. What the danger is that everybody believes a bailout's coming, and you don't have the mop when the time comes. So how would you try to get—

**[01:55:23.10] - Lawrence H. Summers**

So I would distinguish Quite— I would distinguish quite— so I think the difference between us is that I take Diamond-Dibvig liquidity crises that aren't solvency crises or liquidity or solvency crises that never would have been if there hadn't been a liquidity crisis. I take those ideas really quite much more seriously than you do as things that are very important. And so would I try to stabilize— well, do I think the Fed should try to stabilize the residential housing market or the stock market? No, I absolutely don't. Do I think the Fed should try to limit, uh, do I, do I think that The Fed should have bailed out Silicon Valley Bank. I will say it clearly. I have no doubt that if it had been my decision to make, I'd like to think that if it had been my, if I had been overseeing

the situation, I would've forced some market value accounting and more people doing market value accounting and fewer people reviewing checklists of 93 different rules. Than was what we had. And so the situation would not have arisen. But if the situation had arisen, I absolutely would have bailed out Silicon, uh, uh, Silicon Valley, uh, bank depositors, because I think the costs of not having done so would have been to take and would have been to take an enormous risk.

**[01:57:12.31]**

But that is a very different thing from saying that I would put some generalized put under all aspects of the financial system, which I certainly would not do. And I would recognize that there was a possibility of cascading liquidations that function in ways like a bank run infecting other markets where assets are traded. But I would be very skeptical, and I certainly would have engaged in far less QE in the name of stabilizing the bond markets than was engaged in during the pandemic period. So I think of it as panic correcting, not as market stabilizing. And I'm not completely unaware that there are no moral hazard benefits of panic— no moral hazard costs of panic correcting, but I think the benefit of correcting panics is pretty substantial. And I think the shadow cast forward is of ambiguous sign because on the one hand, yes, you're right, you do reduce some precautions, but on the other hand, you also reduce some panic. And so I don't feel like the excessive amount of that that we do has done us any particular good. I look at Britain, where the general attitude towards these things is considerably more moral hazard fundamentalism, and I discern no stability benefit that is readily apparent.

**[01:59:20.29]**

In their financial system or what's happened to their financial system at key junctures as a consequence of their greater rigor.

**[01:59:33.32] - John H. Cochrane**

I think the answer is you don't have to worry about panics in equity markets. You only have to worry about panics when there's a lot of debt out there. But let me ask it this way. So, we've done what would happen if you're in charge. Let me ask you, what would you say if someone else were in charge? So, let's look ahead a couple of years. The Fed chair decides that trade risks to the financial system are first order, and it tells every bank to disclose its scope-3 exposures to China, or that crypto markets are crashing. I'm going to push your buttons a little. You know, Trump Coin is falling down, and this poses a systemic danger to the US financial system, so the Fed has to support the crypto markets as well. If the Fed is independent, Who can object to any of this? I don't—

**[02:00:26.32] - Lawrence H. Summers**

sorry, there are two or three parts to what you just said. First of all, the way we at the Treasury operated in my years at the Treasury was we thought the setting of monetary policy and the accelerator-brake judgment was a judgment on which the Fed was independent. We did not ask them what they were going to do. We did not tell them what we thought they should do. We certainly thought it was our job to collaborate with them on a range of other issues. We discussed with them what should be done about potentially— what, if anything, should be done about potentially inflated asset prices. We discussed with them what American policy should be towards, uh, the IMF. So it is not our idea, nor was it the Fed's idea, in any of the interactions I've had as a government official with the Fed that it was independent with respect to everything that it did. When the Fed chairman went to Country X and was going to see the prime minister of Country X, without exception, in my experience, the Fed chairman was in close consultation with the relevant US ambassador and with the relevant parts of the foreign policy community.

**[02:02:04.54]**

So I don't think that the appropriate concept of independence is that you're a purely independent institution. You're an institution that with respect to a particular set of functions operates independently. And by the way, this is a thing that happens a lot. I was Treasury Secretary. There was an IRS Commissioner. With respect to your tax return, the IRS was entirely independent, and it would've been a crime if I had sought to involve myself in your tax return. With respect to how many resources were gonna be directed to compliance and how many were gonna be directed to customer service. The head of the IRS worked for me, and that was a decision in which it was expected that I would be centrally involved. So, the model of central bank independence that I advocate is central bank independence with respect to some set of particular functions and involvement with dependence in other sets of functions. And I think that's what practically exists in the United States. That's what's kind of completely recognized by the concept of a G7 meeting where countries, or G20 meeting, where countries have a delegation and the delegation is the top financial official in the government and the head of, the head of the central bank.

**[02:03:50.35]**

So I think it's important to be clear on what is the concept of independent central banks. And I think to attempt to remove central banks from all of that activity would be to remove capacity and competence force redundancy and lead to excessive politicization in order to protect a

particular kind of virginity, the excess, the lack of which I don't think contributes to any of the important problems that we have observed.

**[02:04:34.33] - John H. Cochrane**

That, that's great. What I, what I sense in you is you're saying, um, independence is is not just a set of laws and regulations, it is traditions, it is norms. It's something that even within a completely un-independent department like the Treasury can be achieved. So we're gonna close.

**[02:04:49.38] - Lawrence H. Summers**

It's achieved in part by law. In part by law, yeah. It's not just culture and norms, it's also law.

**[02:04:57.47] - John H. Cochrane**

Also by law.

**[02:04:58.31]**

But in that, let me, so our closing question, which you may wanna, there is the topic of this conference. In the overall structure of the Fed, in the cycle of appointments, how much presidents can hire and fire, in the structure of the FOMC, in the role of Reserve Bank presidents, in the internal procedures of the Fed, would you see any changes you'd like to make, or is what we got pretty good, don't screw with it?

**[02:05:31.47] - Lawrence H. Summers**

I think what we, I think what we have is pretty good. I think the fact that if we're gonna have regional bank presidents and we're gonna have re— and we're gonna have that whole structure, I think it's crazy that they're all on the same coterminous term. I'm not certain whether I would invent that if it didn't exist today, invent having 12 regional banks if we didn't have that today. But I think having them all be, all 12 turn over at once is only consequential if it's unfortunate. So I would certainly make that change. I think that the world has moved a certain useful distance, but I am unimpressed with, uh, the benefits of the separate boards of regional feds. I mean, at the moment before 2008, when the public interest director, not the banking director, Not the private sector representative director, the public interest director of the New York Fed was the chairman of the board of Goldman Sachs. The thing was an absurdity. And I don't think the— and it's much better. The rules as they now operate are much better, but I think they probably could usefully change. I don't quite know why it's good for local Federal Reserve chairs in any

way to be responsive to 3 bankers, 3 business people, and 3 good citizens who do some combination of get chosen by the president, be self-perpetuated, and hang around.

**[02:07:38.47]**

So I am uneasy about the local Fed structure in that way. I think, I don't know quite what I would do about it, but I think that I don't think the national interest is well served by the cacophony. Um, the fact that there are 19 people each giving an average of 2 to 3 speeches between every meeting that are extensively covered by people looking for clues as to what is going to happen seems a quite bizarre way of achieving transparency, uh, with respect to intentions. So I would be looking for institutional solutions that cause there to be sparser and less extensive, uh, communication. I don't understand why, and there may be a good answer to this, but When the president deliberates about almost anything, there, one of the things that's done to make there be more effective deliberation is that for some long time period, like in some cases forever, a transcript of the conversation is not released to the public, and certainly no summary of the conversation is released to the public 4 weeks later by rule. And so I actually think the Fed suffers from a surfeit of public communication, which undermines the candor of the internal communication in ways that are in ways that are unhelpful.

**[02:09:56.26]**

I think for the most part, successful institutions in the world do not operate like an academic department in a university does, where everybody kind of comes in and chats and everybody goes and expresses their opinion. And it is far from obvious to me why that should be the way. So I would be— I'm answering the question since you asked it and reminded me 3 times that it was the subject of the conference, what I think the issues would be in terms of the design of the system. But if you sort of said to me, in a world where the national agenda is crowded, there are large numbers of threats, when subjects are opened up, all kinds of things can happen. I'm advised by people who know much more about this than I do that no matter what good idea you have for it, you should be against the United States having a new constitutional convention because of what is likely to happen. I don't think any of the recommendations I made are importantly good enough that I would want to throw up into a political process an extensive debate on the redesign of central banking institutions.

**[02:11:28.23] - John H. Cochrane**

Thank you, Larry Summers. What— sorry, I should announce what we're We're doing— what are we doing next? Adam will announce what we're doing next. Coffee break.

**[02:21:41.23] - Ellen Meade**

Economics at Duke, formerly with the Federal Reserve here in Washington. Thank you very much to Adam Posen and John Cochrane and David Wilcox for organizing this fascinating and highly relevant conference. I was trying to think of a statement that reflected consensus coming out of the first session, and it seems that there is a consensus in favor of monetary policy being independent from political influence. We may not have a consensus about how to achieve that or how narrow or broad that independence is, but we think that that delivers lower inflation outcomes. And that's been a long accepted, I think, at least if you look at the design of central banks in the world today, a long accepted premise. In the 1990s, you had countries in Europe making their central banks more independent in the run-up to the euro. You had the IMF going into countries in the former Soviet Union, helping them design central banks that were independent. De Bell and Fisher, which Adam referred to in his opening remarks this morning, gave us the ideas of goal or broad independence and instrument or narrow independence, and they came down firmly in favor of instrument independence, in part because of the accountability aspects of a narrower remit.

**[02:23:21.20]**

You know, independence is a delegation from elected officials to central bankers. And so the more delegation you have, the greater the independence, the higher the requirements for accountability. So, uh, today we want to take up what is, uh, how is the Fed doing in terms of its accountability, um, and we have great panelists and experts who can talk to those points. Michael Bordo is a professor of economics at Rutgers University, uh, currently Distinguished visiting fellow at the Hoover Institution. Rich Clarida is a managing director at PIMCO and a professor in Columbia's School for International and Public Affairs. I may have that wrong. And importantly, was vice chair of the Board of the Fed between 2018 and 2022. Thomas Drexel is an assistant professor in the economics department at the University of Maryland. And Patrick McHenry is a former representative to the House of Representatives from North Carolina, west of where I live in Durham, and importantly was chair of the House Financial Services Committee but for the last 2 years of his 20 years in Congress. So I'm gonna ask them all to speak to the topic, and we're gonna start with Thomas Drexel, go to Michael Bordo, Rich, and then Representative McHenry.

**[02:25:11.41]**

Thank you.

**[02:25:23.34] - Thomas Drechsel**

All right, thank you very much to the organizers for inviting me to this interesting and important conference. The earlier session today already made me think very deeply about what is a good Halloween joke to kick off my remarks, but I couldn't come up with one. So instead, let me begin by stating some conventional wisdom, which is that independent monetary policy is a great institutional arrangement. I gather that most of us in this room are conventionally wise in the sense that we agree with this conventional wisdom, but the organizers have tasked us with more than just restating conventional wisdom. So in my remarks, I would like to think about some more richness, some subtlety, and perhaps some limits to this conventional wisdom. And I was invited, I think, because I've done some empirical research on the economic effects of political pressure on the Fed. So what I want to do is draw on my experience of carrying out research to, to ask what more beyond the conventional wisdom research can, can teach us. The first thing I want to say is that research has already been quite successful at adding some richness, some subtlety to the conventional wisdom.

**[02:26:48.14]**

Empirical research has told us about quantitative magnitudes. So the conventional wisdom says monetary policy is a great— independent monetary policy is a great institutional arrangement. But research can tell us what does that mean in numbers? By how much is a country worse off if the independence of the central bank gets eroded. Research can also teach us about economic mechanisms. Why is a country worse off when the independence of the central bank gets eroded? So I'm mentioning two recent papers here. One is by Francesco Bianchi, who was on the earlier paper and showed us some pictures from that research. And the other one is my own work on political pressure on the Fed. So I don't want to do any more self-promotion than that. I just want to mention that and want to say that that research has already delivered some more subtlety around the conventional wisdom. Instead, what I want to do in the rest of my remarks is to tell you that to me, doing this research has also raised some important questions. These are sort of things that I don't think research has sufficiently good answers on, and they are things that, that bother me and that I, that I think about often.

**[02:28:09.11]**

So I want to pose these questions, which will probably help kicking off the discussion later on. I don't know if they are among the top 100 issues for the republic, but they are certainly questions that are important to me, and there are 4 of them. So let me discuss them in turn. The first question is, What are good comparisons? So in empirical research, we have to think hard about identification and about where variation comes from that we exploit for answering questions. And the earlier literature on independent monetary policy has largely done cross-country comparisons. So Adam earlier mentioned the seminal Alesina-Sommers paper from '93, where

basically We look at the experience of different countries. We assign a score of central bank independence to different countries, and then we compare the inflation experience. So think comparing Switzerland with Turkey and learning that Switzerland has on average enjoyed lower inflation. More recently, research has done more on comparing different time periods within the US economy. So here the idea is that we use time series variation for the US and we look at episodes of political pressure, say under Richard Nixon as president, and we benchmark that with periods where presidents have exerted less pressure on the Federal Reserve.

**[02:29:39.22]**

And perhaps to do justice to Francesco's work, I could have also put here two pictures of President Trump before and after a tweet. That's also variation within the US through time at higher frequency. So that's different variation has been exploited, different comparisons have been made, and it's sort of not clear when which comparison is the right comparison. That's a question that we have to ask ourselves as researchers and also in a less formal conversation, we want to think when we compare, you know, when we say, oh, this happened in the 1970s, We should be careful because we want to think about what is the actually, for the question at hand, the right comparison and the right benchmark. So I think this is an important question. Related to this question is the question of whether the US is actually special. We know that the US is special in many respects. In particular, it has a central role in international trade and international finance that The dollar has a very special role. And when it comes to erosion of monetary policy independence for the US, I do wonder, I think it's not clear whether this central role hurts or helps.

**[02:31:02.07]**

You might say the Fed is such a central node in the global economy that if Fed independence gets eroded, God help us, that's horrible because everything depends on the Fed. But on the other hand, it might help because if the Central Bank of Uruguay loses independence, maybe the bond vigilantes show up very quickly and capital flows out very quickly. But if it happens in the US, what are you going to do instead? If it's not the US, where are you going to go? So earlier there was a discussion around the absence of a financial market reaction. And I do wonder whether that may have something to do with the special role of the dollar and the special role of the, of the US. So this is a question that, that I think about. The third question, and this also came up earlier, is on central bank independence versus monetary policy independence. So the title of this conference is central bank independence, so we can discuss this more broadly. I think in academic research, sometimes we use these things interchangeably, but there is much more than a central bank does, and maybe that should or should not be the case, than conducting monetary policy.

**[02:32:24.30]**

And this tension is encapsulated in this quote here from Treasury Secretary Scott Bessant, who basically makes the case that the fact that the Fed has conducted so many other tasks and activities, that's actually a threat to independent monetary policy. Okay, so this is a tension. This is a question we should think about. And I don't think in academic research we have sufficiently thought about that. My final question relates to accountability, and maybe the session title is actually accountability, and I've meandered maybe a bit around that topic. So I do want to pose one question on accountability. So it already came up that there may be a tension between monetary policy independence and accountability. I want to raise an additional dimension here. I want to look at an additional dimension, which is transparency. So transparent and accountable, that's often used together in conjunction. But I wonder what the relationship between the two is. Without wanting to go too much into the terminology of things, you know, I'm not a native speaker, but I understand transparency as being open and visible and accountability as being answerable for your actions. So how do these things work together? I think we have certainly seen a big increase in transparency of central banks and the Fed.

**[02:34:11.27]**

There are press conferences, there are many more speeches. And in academia, we really like that stuff. We analyze those speeches. We look at the materials that the Fed publishes.. But does that make the Fed more accountable? I think that's an important question. Does the transparency, the openness, does it help? Okay, so let me just summarize the questions. What are good comparisons and when should we make which comparison? Is the US special when it comes to threats to independence of monetary policy? What's the relation between central bank independence and monetary policy independence? And what's the relation between transparency and accountability when it comes to monetary policy?

**[02:34:59.50]**

Thank you.

**[02:35:23.34] - Michael D. Bordo**

Okay, well, it's great being back at the Peterson, and thank you for inviting me. My talk's on both independence and accountability, because I was originally asked to do something on independence. I'm going to talk about the history of Fed independence, learning, learning from adversary. Adversary. So, I'm an economic historian. I'm going to complement some of the things that Gary Richardson said, but I'm not going to say exactly what he said. So, here's some

background on the history of early central banking, especially the Bank of England. So, the early European central banks, they were private joint-stock banks with government charters. So, the Bank of England was founded in 1697. It was a bank of issue. That meant it was to issue banknotes and can lend these banknotes. It was tasked to aid the British government in financing the various wars that were going on throughout the early period. It evolved into a banker's bank. In other words, emerging banks would deposit with the Bank of England because it had such a large capital base. And then from that, it became a lender of last resort. The world was on a species standard, the gold standard, and what the Bank of England did in the 17th and the 18th, 19th century, in the 20th, was manage the gold standard.

**[02:36:46.39]**

It did not conduct stabilization policy. It was independent, but its independence was made accountable by periodic charter renewals. So now we get to the Fed. So the Fed was created in 1913. To consolidate the currency. There were greenbacks, silver certificates, all kinds of stuff floating in the previous national banking era. It was designed to stabilize seasonal fluctuations and achieve financial stability. There were lots of banking panics then. It was supposed to try to do something about it. So it was supposed to act as a lender of last resort. And we were still on the gold standard, so as to preserve the gold standard peg. The basic thinking behind the Fed, and Gary talked about Carter Glass, who was a champion of it, was the real bills doctrine. And that view was that if the reserve banks followed a passive discount rate policy, that would automatically guarantee economic stability. So, the Fed was established by Congress as a public-private partnership with limited operational independence. There were 12 regional Reserve banks governed by local boards of directors, mainly from the commercial banks. It was coordinated by a board in D.C. appointed by the executive, including the Secretary of Treasury, so it was not completely independent of the fiscal authorities.

**[02:38:10.53]**

During World War I, the Fed became an engine of inflation. It was subsumed under the fiscal expansion of the Treasury, so it didn't have independence. After the war, 1920-21, according to Friedman and Schwartz and Meltzer and a lot of others, the Fed made its first policy mistake by not tightening fast enough to stem the postwar inflation. And it did this because of Treasury pressure— Treasury from the executive to support the bond market. In the '20s, the Fed learned stabilization policy. Benjamin Strong was the the governor of the Federal Reserve Bank of New York, and he, in a sense, ran the show.

**[02:38:51.17]**

And this was—

**[02:38:51.55]**

Friedman and Schwartz called this the high tide of the Fed. And what the Fed did was learn to coordinate the regional banks, which had followed destabilizing regional discount policies. We know about 1929 to 1930. It was a terrible disaster. The Fed failed to prevent 4 big panics. Friedman and Schwartz attributed it to bad governance. After Benjamin Strong's death, Allan Meltzer blamed it on bad doctrine on the real bills. So, the major reform in 1935 that Gary mentioned shifted power from the regional banks to the Board of Governors. Fed independence at this time was clipped by the Treasury's— by the Roosevelt administration creating the Treasury— creating the Exchange Stabilization Fund, which had its own ability to issue money. Okay, and the Thomas Amendment, which allowed, in a sense, them to monetize silver. So there was a threat, in a sense, that in the Roosevelt administration, in a sense, the Fed, before it was really subsumed during World War I, it was already under Treasury pressure. In the war, it sustains a low interest rate peg and becomes an engine of inflation. Its operational independence is restored with the 1951 Accord. William McChesney Martin, who was governor in the '50s and '60s, he was pretty successful in maintaining price stability.

**[02:40:17.23]**

In a sense, he followed the Bretton Woods peg and real output stability until the 1960s. Okay, now I'm going to change gears. Milton Friedman, my thesis advisor, he wrote a paper in 1962 which has sort of been forgotten, and his case was against central bank independence. Okay, so why did he say this? Okay, first, he was a libertarian. Okay, he said unchecked power to unelected officials is inconsistent with a liberal society. Okay, secondly, he was thinking of the institutions of the time, and he was worried about the fact that the Treasury did debt management, and he was worried that there was a conflict here between the Treasury and the Fed. And the third was he was worried about credit policy. But when he meant credit policy, he didn't mean what we talk about today. He was thinking about the role of the banks and the financial system in the monetary policy transmission mechanism. And the last point, which is the one that we think about today, is idiosyncratic policy outcomes depend on the personalities of the Fed leaders. So, he compared W.G. Harding, who was the Fed governor in 1921, and Eugene Meyer, who was the Fed governor in 1930, versus Benjamin Strong in the '20s.

**[02:41:36.31]**

He says it really matters who's there.

**[02:41:41.46]**

Okay.

**[02:41:42.13]**

He made the case for automatic rules over authorities' discretion. It's an old story. The classical story goes back to the currency school in 1810, and he made the case for his K-percent rule. So, his solution was to put the Fed into an office in the basement of the Treasury to just print money at the rate sufficient to finance real growth adjusted for the trend velocity. And Meltzer also criticized the Fed based on his reading of the record. He criticized them for bad doctrine, real bills, and also for short-termism, including presidential interference. So, what about now? How do we get to now? Well, you know, the Great Inflation came along. Okay, it began with pressure by Johnson on Fed Chairman Martin to accommodate expansionary fiscal plans and keep interest rates low. Then you've got Nixon, and we've already talked about him, pressure on Burns to keep rates low to guarantee his reelection. I'm not going through the story of the Great Inflation. The Great Inflation was vanquished by Paul Volcker-type monetary policies, and Volcker and his successor Alan Greenspan, restored the Fed's low inflation credibility last achieved by Martin. So, the Great Inflation— this leads to the modern case for central banking where we are today— that led to major advances in monetary theory, rational expectations that resuscitated the case for central banking and in a sense would go against Milton Friedman's views.

**[02:43:13.18]**

So, Kydland and Prescott and Barrow and Gordon, they posited that a credible a commitment mechanism, a rule, is required to prevent central banks from following time-inconsistent behavior. Others made the case for a CBI, especially with a conservative chair. That's Rogoff's position. And it would follow transparent, well-communicated policies to maintain credibility for low inflation. John Taylor made the case for his instrument rule, which would succeed Friedman's rule, and many central banks adopted inflation targets in the 1960s, which actually did pretty well, especially in a lot of other countries. The Fed came in later. Okay, so what about Friedman, 1962? Well, the new case for central bank independence became widely accepted by the central bank community and was pretty successful during the Great Moderation. But since the early 2000s, a series of unforced errors by the Fed and other central banks, okay, have made Friedman's argument become more pertinent again. This is the global financial crisis. Many argue that it was partially caused by the Fed keeping rates too low for too long in the early 2000s to prevent Japan-style deflation, thereby fueling the debt-fueled housing boom and bust leading to the crisis. And the pandemic of 2021 that's already been mentioned, Expansionary

fiscal and monetary policy fueled very high inflation, which the Fed was several quarters late in stemming.

**[02:44:46.57]**

This is based on the misperception that the inflation was largely caused— and by the way, Larry said that he was the first— Mickey Levy and I had a paper in 19— in 2020 that made this case, and then we had two Wall Street Journal articles, but I think he was before us on that. We made that the inflation was largely caused by transitory supply shocks rather than by warlike surges in aggregate demand. So these Fed errors occurred despite the new achievements and understanding in economics and policymaking. So we get to the end. How do we do— how do we strengthen the case for the central bank independence? So at present, the Fed's independence is being threatened by the executive branch's pressure for it to lower policy rates below what policy rules and economics analysis suggest is appropriate. Now, I wanted to say something about the late Charlie Plosser, who was a former president of the Federal Reserve Bank of Philadelphia, and he was a member of the Shadow Open Market Committee that I'm on. And I thought he was a very, very prescient guy. And so he proposed in 2016 a number of steps to improve the Fed's communications and accountability to ensure independence.

**[02:46:05.01]**

First, he proposed simplifying its mandate to primarily focus on, on low inflation within the 1978 dual mandate, but to get back to Volcker and Greenspan's view that the Fed's best contribution to healthy economic growth and maximum employment is low inflation. Okay, his second point, and this is brought up a number of times before, he opposed the Fed taking on other mandates such as macroprudential policy, climate change, inequality, and he wanted the Fed to prioritize on its main mandate, which is preserving the value of money. He thought the Fed should simplify its balance sheet, okay, and, and not stray into credit policy. Okay, he was He was writing 10 years ago, along with Marvin Goodfriend. He wanted to go back to a bills-only policy. Things have changed in the past decade, and that may not be the way to do it. And the final point is that the Fed should be more systematic and adopt a policy rule of its own to serve as a benchmark for accountability. The Fed's performance, okay, with respect to a rule, will be part of a periodic review of its policy actions to Congress. Departures of the rule would need to be justified by the chair.

**[02:47:24.58]**

The strategy has resonance to the Financial Choice Act of 2017, which was never passed. And a final improvement to communications would be, which is something that I posited with Mickey

Levy and Andy Levin, is, and Ben Bernanke picked this up in the last review, is for the Fed to use scenario analysis to let us know how it's going to deal with situations as they come in the future. Thank you.

**[02:48:10.10] - Richard H. Clarida**

Okay, well, um, thank you, Adam, John, and Dave, for inviting me to participate in this timely and topical conference, and in particular on this session with Ellen, Patrick, Michael, and Thomas. I'm going to begin by looking backward at the historical record and received conventional wisdom on the importance and benefits of central bank independence before looking ahead at some significant challenges to central bank independence that have emerged, I believe, as a consequence, at least in part, of the monetary policy responses to the GFC, the pandemic collapse, and the post-pandemic surge in global inflation. I don't have anything on these slides other than self-promotion. I've been writing a lot on these topics, and so if you're interested, on my website, website there are links to the research and opinion pieces that undergird what I'm about to say. Now since at least Alesina and Summers' recognition of the importance of central bank independence for sustaining price stability and delivering good economic outcomes is now widely understood and broadly, if not unanimously, accepted by elected officials in most countries. That said, our understanding of what it means for a central bank to be independent has evolved, and I believe it should continue to evolve.

**[02:49:38.38]**

Guy Debelle and Stan Fischer's classic dichotomy between goal independence and instrument independence, of course, remains relevant. But as the number and complexity of instruments in central banks' toolkits increase, as their footprints in the financial system multiply, And as their overlap with fiscal policy and debt management expand, the distinctions can become blurred, the tradeoffs more complex, and the criticism more difficult to ignore or refute. As an aside, much of the academic literature on policy rules for setting policy instruments independently, including papers I wrote earlier in my career, is at best incomplete, as it assumes usually implicitly buried in some footnote, if at all, a clean separation between instruments of conventional policy and other important considerations such as regulation, fiscal sustainability, financial stability, and the composition and maturity structure of the central bank balance sheet. While this simplification may have been justified 25 years ago as a starting point, it is less defensible today. To cite just one example, I often found myself at the Fed asking how a potential policy decision on interest rates or the balance sheet would interact with the liquidity and capital standards required for banks and later the functioning of the Treasury market.

**[02:51:06.02]**

The literature on policy rules essentially treats regulation as a black box or assumes it away entirely, and so really gives no guidance on how to incorporate these considerations into traditional policy. A real-world example of incomplete understanding of the interplay between traditional monetary policy and regulation was the disruption in the repo markets in September 2019. Central bank independence today faces fresh and potentially serious challenges triggered both by the political backlash against, and from different quarters, the enthusiastic support for some of the unconventional policies deployed and also the emergency 13 lending facilities rolled out during the GFC and GPC. And I should mention, one of the papers is a recent paper of mine with Kate Judge at the Columbia Law School, which takes a pretty deep dive into the rationale and execution of 13 in the GFC and the pandemic collapse. Although this was always understood, much of the original literature on central bank independence abstracted from the institutional architecture within which individual central banks reside. Institutional details matter enormously, not only for which goals are assigned, but also for which instruments can be deployed, and in some cases, how they are to be deployed. Internationally, there are different modalities within which institutions grant or constrain central bank independence.

**[02:52:40.33]**

In the U.S., the Fed is, of course, a creation of Congress, just like the Department of Labor, which was also created in 1913. But unlike the Department of Labor, the Fed operates, at least for the time being, as a, quote, independent agency within the meaning and protections afforded by a 1935 Supreme Court case. So now, while there's something like an agreed-upon best practice template for setting interest rates to hit an inflation goal. Because institutional foundations for CBI differ from country to country and are especially relevant for how goals are defined and how instruments are deployed, it is unlikely that we will see a convergence to a single best practice model of CBI, and increasingly less likely that actual and best practice in any given country will coincide. Up until now, I have been discussing CBI in the context of traditional goals and instruments framework. But of course, one reason CBI is under challenge is the backlash against the extraordinary actions the Fed and other central banks undertook in 2008 and 2020, as well as of course the post-pandemic persistent surge in global inflation that caught most central banks off guard and thus initially put them far behind the inflation curve.

**[02:54:04.00]**

I begin with, I think, a simple but not unimportant observation. The tools of monetary policy are in general not exempt from the laws of economics. Returns typically diminish and benefits usually incur cost. Regarding guidance, forward guidance, especially threshold-based or calendar guidance, has both benefits and costs. Including costs to central bank credibility when such guidance shackles a central bank policy to an outcome it cannot directly measure. For

example, in September 2020, the FOMC's muscular forward guidance tied liftoff in part to a threshold of estimated maximum employment. Maximum employment is notoriously difficult to measure in real time, and even years after the fact there are disagreements. And this was certainly the case during the pandemic when labor market dynamics were in flux. So there would seem to be important benefits to forward guidance that limits itself to variables the central bank can actually and directly influence, such as inflation, rather than less observable metrics such as maximum employment or perhaps even expected inflation. Turning now to the balance sheet, 4 QE programs in the U.S. have been deployed since the global financial crisis. However, the two open-ended QE programs, QE3 and QE4, have proven in practice to be challenging to wind down.

**[02:55:27.25]**

For example, as was evidenced not only in 2021 and 2022, but also in the taper tantrum episode in 2013. The Fed's communication in December of 2020 that it would continue QE4 until substantial further progress towards its dual mandate goals including maximum employment, delayed liftoff, and in the event, constrained policy flexibility. Based on the U.S. experience with QE3 and 4 and some recent cross-country analysis of unwinding QE programs in other countries, it would seem that there can be substantial benefits to clarifying ex ante and clearly both the rationale for a QE program and the duration that is expected when imposed. As for the composition of the Fed's balance sheet, and I was heartened to hear the history of this from Mike Bordo, I myself think there is a compelling case, as Governor Waller has suggested, for the Fed to shorten significantly the average maturity of its Treasury portfolio. Indeed, I would go further and argue in favor of a SOMA portfolio with substantially shorter maturity than of the Treasuries outstanding. As was indeed the practice to some extent before the global financial crisis. Thank you very much, and I look forward to the panel discussion and the rest of the conference.

**[02:56:47.34] - Patrick McHenry**

Thank you. Good morning. My name is Patrick McHenry. I had the honor to serve in the United States Congress for 20 years and ended my service as chair of the Financial Services Committee. And because of a great deal of dysfunction on the Hill, I became Speaker of the House for 23 days. I do not wish that on my worst enemy. Well, actually, I may wish that on my worst enemy. But it's an honor to be a part of this panel. Program, and with such a credentialed, deeply thoughtful crowd, I'm here to present to you on behalf of the rabble, the problems. And it is the political class that I'm trying to bring you the perspective of. And we have a general question that we must answer, but a specific set of challenges that we have to confront. And so

I want to present to you a question, which is why are we having this discussion at this political and economic moment.

**[02:58:02.51]**

Why?

**[02:58:04.10]**

And then that will lead us to a series of what may be traditional outcomes for structural changes. But let us understand why we are here. There will be no presentation from me. I'm not going to do that to you. It's a few ideas I want to submit to you. First, I believe that is the dysfunction of the political branches of our government that have led us to this moment. Uh, there are, uh, moments of crises where our political branches must be the dominant force, not agencies of our government, and certainly not, uh, an agency of our government that we wish to remain independent and distinct from the rest of us that are in the trenches or, um, representative of the populace. It is the dysfunction of our political classes that have given the Federal Reserve, our independent financial monetary authority, heavier obligations, and therefore bringing them further into the set of the muck and mire of day-to-day politics. We also have seen a massive intervention based off that dysfunction, uh, the results of the Great Financial Crisis, uh, COVID, the massive expansion of our balance sheet, that though we say we will not monetize our debt, there is evidence that we perhaps will monetize our debt.

**[02:59:26.54]**

That leads us back to the first question, the dysfunction of the political branch that I've just left. And then we are now experiencing among the populists, the first lived experience, lived experience of what they think of as inflation. And they do not like it. They do not like it. And so, I think we have to think through this in a logical way rather than an emotional and reactive way. But like I said, I came from the political branch that is elected every 2 years. We are in an emotional lot, as I look at our government shutdown. So, the question here is, is the Federal Reserve fish or fowl? Are they the— swimming in the depths, or are they flying high? So, the question for us is not the generalized question of central bank independency or accountability, but the specific of Federal Reserve independence as we know it. Or a question of accountability in order to maintain that independence. So first, we have long debated this question on a rules-based regime for our monetary policy. And that was well outlined by Dr. Bourdon. And so the common refrain on Capitol Hill would be about that rules-based regime.

**[03:01:05.08]**

There was consensus among Republicans from a decade ago when we last had a substantive debate about the central bank, and it was a discussion about a Taylor-like rule or a Friedman-Taylor-esque rule and going from a dual mandate or a tri-mandate to a single mandate. That was the substance of the— and the fullness of the discussion of monetary policy on Capitol Hill. And that is the full range of policy depth and significance. I can give you further words, but there is no further depth. There are no further ideas on monetary policy on Capitol Hill today, nor 10 years ago, nor 20 years ago when I entered the House. So let us go to this, the real question here of whether or not the Federal Reserve is fish or fowl. They're the largest regulator. Of our financial institutions. So when we had this major concern about consumer protection, the Federal Reserve was the central focus about consumer protection, uh, 20, uh, between 25 years ago and 15 years ago, led by the left on whether or not the Federal Reserve was a consumer protection agency or not. Well, we see that the Federal Reserve was— had their powers taken away.

**[03:02:23.38]**

And given to a separate agency that they fund. Number one. Number two, we've had a substantive and major debate about payments in America. That is a political debate on Capitol Hill, unresolved, on who should do payments and how they should be structured. We're now seeing this in fullness with, uh, a, a broader array of issues. Who is our payments regulator in the United States? The Federal Reserve.

**[03:02:48.13]**

Why?

**[03:02:49.05]**

Well, going back to my first question, political dysfunction on Capitol Hill. We give it to the Fed to do these things. Third, climate. The climate debate is unresolved in America. We're an outstanding country in the first world where there is not consensus on climate change. We're outstanding in a way that is, I mean, outstanding as distinct and different for the rest of the world. But the debate of the last administration was on the Fed becoming a climate regulator, which means a majority of the questions for the Federal Reserve on Capitol Hill come about for regulatory policy. So fish or fowl? The fowl must fly high above, but the fish are low, down low and below. Our regulators are separate and distinct from the Federal Reserve, and therefore The Federal Reserve, in order to protect the essence, must shun the nonessential. The nonessential is every stitch of regulation and supervision that the Federal Reserve currently has because of dysfunction on Capitol Hill must be taken out of the Federal Reserve so we can

preserve independent monetary policy for the United States, for the good of our people, for the generations to come. For price stability, and for economic growth, for our place in the world.

**[03:04:12.23]**

Shun regulation, keep the essence, and we will reserve and preserve, uh, the Federal Reserve for generations to come. Thanks so much. Hi, well done.

**[03:04:48.19]**

Thank you.

**[03:04:58.23] - Ellen Meade**

We'll follow the same ideas last time. We'll talk a little bit up here and then welcome you, uh, to come up to microphone to answer— to ask your questions. Um, I have to follow up, um, Representative McHenry, on your last point there, because I was thinking, uh, about what happened in the United Kingdom in the fall of 2007 with a independent Bank of England and independent regulation that had been carved off into a different agency and a lack of communication at the failure of Northern Rock. So how do you solve a problem where monetary policy needs to be informed by regulation and that can be helped by actually conducting it?

**[03:05:44.52] - Patrick McHenry**

Is there current evidence that the Federal Reserve does that? I do not see evidence that the Federal Reserve is communicating with itself. Look at the regional bank failures of March of 2023, the testimony of everyone involved in that. There was no communication about that. We can get into structural questions around the Fed as well. Why do we have the discount window done by 12 individual regional banks? Why do we have 12 regional banks that take 75% of the Fed's budget authority when you could house that differently? I mean, there are substantive questions here. I look at the reforms that they've made in Great Britain and think that there is dysfunction in centralizing and having one uber regulator, but I see greater harm in the fact that we have the FDIC, the OCC, and the Fed, and the biggest— the largest set of bank failures we have are from our independent central bank. It has brought them into disrepute. It has brought them into ill repute on their inability to communicate. I would also submit there might be a public admission that the Fed's regulatory powers have a different set of challenges for them than does monetary policy.

**[03:07:07.41]**

Case in point, the first person to resign from their position as the regulator of the Fed was Michael Barr. There might have been news from the White House that they were interested in firing him, and the Fed did not want to lose in the courts about their regulatory powers. I think that tells us that while we hope the Supreme Court correctly rules on the historic nature of our third national bank and allows it preserve our monetary policy authorities. The regulatory powers are a major problem for them in accountability and a major challenge for them to be brought into a whole lot of political discourse that they shouldn't have. These should be with the president's appointees at the OCC or some sort of new type of bank regulator, not with the Fed.

**[03:08:06.19] - Ellen Meade**

I'd like to invite any of the other panelists to comment if they want to say something. Yeah, well, we'll wait for that.

**[03:08:20.59] - Michael D. Bordo**

So historically, a central bank— okay, historically, central banks, a key function of the central bank was always to be a lender of last resort. Lender of last resort. Okay, it took a long time for them to figure out how to do it. They figured it out in Europe. Okay, US took a lot longer. But a key thing is you have to know what's going on. So, you have to have information. That's why you have to have the regulation and supervision has to be connected closely with the lender of last resort. And so, I mean, just thinking back about what happened in the UK, that was a really big mistake. Okay, we have problems here, but nothing as bad as that. Okay, so I agree with you, 2023 was a screw-up, definitely. Okay, that the Federal Reserve Bank of San Francisco should have been on top of this, and they weren't. There should have been accountability.

**[03:09:20.06] - Thomas Drechsel**

Can you hear me? Yeah, a related question, but abstracting from, from the regulatory issue, on the mandate, if we look at the experience of other countries where there is a narrower mandate for monetary policy, has the inflation experience been so much better in 2021, 2022, 2023? That's a question to you or to anyone for that matter. So countries with strict inflation targets, did they do better in the last couple of years?

**[03:09:57.05] - Ellen Meade**

Let me turn to— unless Rich wanted to say something.

**[03:09:59.26] - Richard H. Clarida**

I think there's a factual answer to that. What's striking is it was a common, at least initial, shock. The pandemic was a global shock. It triggered more or less correlated directionally policy shock, very easy money, expansionary fiscal, and the inflation performance and disinflation was very, very similar. I don't think it said very much about single versus dual or other elements. I think it's more about the shock and maybe about the point that John Cochrane and others have written about. But I think if we were just looking at data, that would be the most direct conclusion to draw. It didn't reveal very much in that episode.

**[03:10:41.11] - Ellen Meade**

I'd like to turn to another issue that came up in a few of your remarks about communications and transparency and that being part of accountability. If you go back 25, 30 years, you know, we have inflation-targeting central banks doing a lot of communicating, the Fed not doing a lot of communicating, and a lot of the discussion around that time is, let's get the Fed to communicate more and talk more. I'm not sure— and that would make them more accountable.

**[03:11:07.56]**

Right?

**[03:11:08.13]**

I'm not sure that that is a recommendation for today. Are we— do we have ample Fed communications? Could communications be better tailored so as to better service the accountability of the institution?

**[03:11:24.43] - Richard H. Clarida**

It gets down at some level to the reaction function, and, and so if there is a reaction function, then communicating that's that's probably useful. But if there's not a reaction function and there's an integration across particular views on the committee, it's not clear that there's always a corner solution in terms of communication. There could be an interior solution, I think. That's my own sense.

**[03:11:59.37] - Michael D. Bordo**

I want to get back to something I said at the end of my talk, which is the importance of scenario analysis. It seems to be a good way to enhance a communication. Central banks should, you know, should sort of pose the issues that they're interested in, how they're going to deal with them. Okay, so I wrote this paper with Andy Levin and Mickey Levy in 2020. We looked at the

pandemic, and it was right in the middle of pandemic. And so, he said, what's going to look like? So, of course, Andy Levin thought we were going to have the Great Depression. I thought it wouldn't be quite so bad. So, we set up these three scenarios. Then we looked at what policy would do in these scenarios. And so, we thought that something like that is— the Fed should do that. They should give us some idea of the war games that we know they're playing. And I know they do this in the UK, but it just seems like one way of really getting a lot more credibility— not credibility so much, but as, you know, getting people to understand what they're thinking.

**[03:13:05.33] - Ellen Meade**

We may hear about that in December.

**[03:13:09.34] - Patrick McHenry**

I think—

**[03:13:09.50]**

so, there's been— post-Dodd-Frank, there's this greater set of obligations on the Fed to communicate. Some of that is deeply misguided, right? Case in point, so we advertise who uses the discount window. And because our regional banks were developed 100 years ago, our most western regional bank is in Dallas. And then they threw out San Francisco because something might happen out there, right? So then you have these regional banks that when they disclose who uses the discount window, it is not very difficult to surmise who used the discount window. So we've given clarity in some ways, but it is a half measure and not deeply, deeply contemplated. Would it be better, for instance, to disclose not at the regional bank level, but to aggregate that data which anonymizes it in some ways, but gives clarity on what's happening in the market.

**[03:14:14.50]**

That would be good.

**[03:14:15.34]**

Market clarity would be helpful. But the distinctive regulatory or trading issue related to a particular bank is not useful for a central bank that is supposed to do those things. We want it to function, and we want the banking system to use those tools.

**[03:14:33.10] - Ellen Meade**

Let me pose one final question before we open it up for discussion, and that is, you know, Larry Summers was encouraging to prioritize other issues over the Federal Reserve because the Federal Reserve, I guess, is less broken maybe than other things. But what about the discussion that's going on right now around an independent inspector general? There's legislation, there's a letter to the Fed, last Friday. I'd be interested in hearing people's thoughts on that and whether or not that would help in these fractious times with Fed accountability.

**[03:15:21.21] - Richard H. Clarida**

Refer to the—

**[03:15:21.52] - Patrick McHenry**

Yeah.

**[03:15:22.13]**

Congressman. Yes, it would help. And by the way, Every other agency of government has an independent inspector general. The Fed actually has an inspector general, right? So this is not exactly some deeply nasty thing. It's a quite practical thing. And in an era where you have people with not just protest signs, but burning in effigy our independent central bank, perhaps some set of modest reforms would be meeting the moment in some reasonable way. And this whole crowd has spent careers reviewing, second-guessing— I don't want to say second-guessing. I mean, how many guesses can you have about a certain scenario? A whole career worth. So to actually have a piece of the government review another piece of the government is not a deeply inflammatory thing, nor do I think it's particularly interesting. When Ron Paul brought up auditing the Fed, I put that in the question of, is there gold in Fort Knox? It's like a silly question, and you have to hear a lot of black helicopters really care about it, and I was never in that camp. So, the idea that this is some sort of major systemic shaking thing is a bit silly in my view.

**[03:16:53.27] - Michael D. Bordo**

Yeah, I'm thinking about the issue of like if you have serious problems that arise with a central bank, is there should be some real outside authority that can review it in a way that can get the community involved. So I was thinking about the National Monetary Commission that created the Fed. It deliberated for a long period of time. It commissioned studies. And it came up with the Fed. If we had something like that— we've had commissions before. We had the Gold Commission. But if you have a commission that's really serious, that's really independent, you can deal with some of the big issues. And you do this every, say, 10 years, like a major review.

Or you do something like they do over in the UK, where the House of Lords is going to sort of hold sessions on the Bank of England, and a lot of people can weigh in on it. And they publish the results. And then it's used as a way of suggesting reform. So there are ways to do this. If you have an independent, within the government inspector, there's always a question of who chooses who's going to be those people.

**[03:18:07.04]**

So I think that's not necessarily such a great idea.

**[03:18:12.29] - Ellen Meade**

Okay, so let's open it up for questions. I think we'll go first to Paul Tucker, who— but we need you to have a microphone or maybe—

**[03:18:21.16]**

there we go.

**[03:18:26.55] - Paul Tucker**

Thanks very much. Paul Tucker, Harvard Kennedy School, former central banker. Um, two, two things on the Inspector General thing. The Bank of England is subject to National Audit Office review, but I think the case here, if you make it for the Fed, I think it can be made for the Supreme Court as well. And I think if you don't go along with it applying to the Supreme Court, then you'd have to have a distinguishing argument about why it applied to the Fed other than the kind of three-branch thing, given the problems with the integrity of some of the people serving on the Supreme Court. More importantly, this regulation supervision thing, and I think you and I probably agree about more than we disagree. I think the problem with taking the supervision out of the central bank is that you As Ellen said, in a crisis, you can have an ignorant central bank. That's very frightening for the head of the executive branch, and it's very frightening for the assembly as well. And it tends to lead to more fiscal bailouts than would otherwise be the case. And I think, I think that's something you should trade off if we, if we take the whole supervision regulation out of the Fed?

**[03:19:56.19]**

Are we walking into something else, which I'm fairly confident you wouldn't like and I wouldn't like, which is fiscal bailouts? The kind of argument that central bankers elsewhere in the world would offer for being involved in supervision and regulation would apply here. Is the origins of

the Fed are not around monetary policy. They're around— in 1913, they're around the lender of last resort. The US was on the gold standard. That's doing the monetary policy inflation work. And the idea was to kind of reduce the incidence of catastrophic systemic crises. Um, here it is a factoid that in the decades in which the Bank of England responsible for supervision as well as monetary policy, there were bank failures, but no systemic crises. None. And in the decades in which the Bank of England was not responsible for supervision, as well as monetary policy, there was quite quickly a gigantic systemic crisis. And I think this is partly to do with incentives. Central banks don't actually want to lend to people. And when they do lend, they want to get the money back. I mean, I have lent lots of money to individual firms, and the first conversation with them is, we are going to do this because we want the money back, because we don't want to have to go to Parliament and explain that, as well as the kind of public policy purpose, we've actually lost money which we're sticking on the taxpayer.

**[03:21:37.13]**

It is much harder to do that unless you are also unless you've got people in the building that know about banking. Um, if, if for decades you are not the supervisor, you end up with a central bank that doesn't know about banking and can't do the lender of last resort, um, prudently. Now, this is not a defense of the Fed's conduct of supervision, of which I would have probably more criticisms than you. But it is an argument for them staying in that game. If you were in that game, you have an interest— no stronger than that— an interest in the quality of the regulation and having some say, informal or formal, in the quality of the, of the regulation. I don't think it follows from that that the Federal Reserve should be the sole regulatory power. But it isn't in this country. Almost every regulatory rule in this country for banks has to be signed off as well by the OCC, which is most definitely under the control of the Treasury Secretary, and the FDIC, for many, whose chair rotates with who's sitting in the White House and therefore is indirectly under, um, the influence of the elected executive and Congress..

**[03:22:58.29]**

And I have lots of experience of both. I wasn't a kind of policymaker for 2 years or anything. I was involved in this for about 3 and a half decades. So I would encourage you to pause on this. I think if you win this argument, you will go to your grave regretting it, and I wouldn't want that to be the case.

**[03:23:17.36] - Patrick McHenry**

Well, I served— I'm an elected official who's elected. I went through primaries and general elections 28 times— and 29 times, I succeeded 28 of 29. My first go was not good. So let me

submit to you, you've explained why taking supervision regulation out of the Fed is not systemic shaking. They still have to coordinate with the other financial regulators, number one. Number two, What we exposed in March of 2023 is the Vice Chair for Supervision did not know about supervision in his testimony. This is not what he spent his time doing. And let me add to that, there was no Vice Chair for Supervision prior to Dodd-Frank in 2010. I'm stating my case. I've heard your case, but And then I'm no longer in office, so perhaps I'm less effectual and less threatening because I'm submitting this idea. But that supervision is done through regional banks. It is not a centralized force in Washington. That, too, is a deficiency of Fed supervision. And so that is largely the interplay between the Fed and Washington through these these regional banks on supervision. So, what I'm submitting here is a case to keep monetary authorities separate and distinct from the political class, because something will have to give.

**[03:24:57.58]**

And I don't wish to give the whole, I wish to sacrifice the nonessential.

**[03:25:07.17] - Ellen Meade**

Other questions? Yeah, John needs a— oh, okay.

**[03:25:18.23]**

Yeah.

**[03:25:20.04] - Audience**

Hi, my name is Vasudha. I'm from the British Embassy.

**[03:25:23.49]**

My question is focused on communications, and in this age where we have social media as what everyone is watching, is there a need for the Fed to modernize how it communicates its role in maintaining regaining its accountability and credibility. I think those who are Fed watchers will continue to read what the Fed puts out and the speeches that governors make. But in an age where everyday Americans care more about inflation and the price of their groceries, do you think the Fed needs to modernize and communicate more effectively to the broader American population?

**[03:26:02.53]**

Thank you.

**[03:26:08.32] - Ellen Meade**

Would like to take that up?

**[03:26:09.48]**

I, I—

**[03:26:10.18] - Richard H. Clarida**

from one word answer, yes, more effectively, of course, more effectively, yes. But more effectively is not necessarily more, more frequently or, or, or, uh, more densely, but, but effectively for sure.

**[03:26:25.42] - Ellen Meade**

Yeah, Neil, uh, but Yeah, thank you.

**[03:26:31.47] - Audience**

Neel Kashkari, Minneapolis Fed.

**[03:26:32.58]**

The topic of Fed communications has come up a bunch this morning.

**[03:26:37.37]**

First of all, to the person's question, I've been trying—

**[03:26:40.40]**

when I first got to the Fed almost 10 years ago, I got very active on Twitter as a way to try to communicate to the wide public who don't normally read the Financial Times and the Wall Street Journal—

**[03:26:51.42]**

no offense to those esteemed publications. You've seen what's happened to Twitter over time.

**[03:26:58.03]**

And it's become a much—

**[03:26:59.01]**

for me, it's become a much less useful medium because it's just filled with vitriol and whatnot. So, I think all of us are trying to explore new ways. But it's also very quickly to just get overrun by whatever the politics of the moment are.

**[03:27:13.16]**

More broadly on communication, we often hear, "Oh, Federal Reserve Bank presidents talk too much." We all feel accountable to our constituents.

**[03:27:22.48]**

So, we all get invited to speak in our districts all the time, and we turn down most of those invitations.

**[03:27:30.27]**

I try to visit every state in my region. I've got 6 states, at least once a year.

**[03:27:34.52]**

I do an open public town hall. Usually, I'm not seeking to make news, but in the spirit of transparency, I livestream everything.

**[03:27:42.47]**

And so, the press is able to cover it. And so, because financial markets are looking for one word here or one word there, all of a sudden, it sounds like, oh my gosh, there's a cacophony of Fed speakers, where most of us are just trying to be accountable to the people we are charged to represent. And so, you know, we could not livestream those events so that we trigger fewer press stories, but then we would be criticized and saying, oh my gosh, you're giving secret meetings.

**[03:28:07.31]**

And so, it's tough.

**[03:28:08.32]**

Like, we're livestreaming this right now.

**[03:28:10.34]**

I feel comfortable making these remarks, but there's a cost to livestreaming everything in the spirit of transparency.

**[03:28:24.42] - John H. Cochrane**

Thanks. This is especially for Mike Bordo, because I think the experience of the interwar years bears a lot. I only recently learned that many interwar central banks with history of inflation in the rearview mirror were forbidden to buy their own treasuries debt and had to buy other things. Some of the ECB, when it was set up, was not to buy sovereign debts. Precisely to not monetize. We in the US think of, "Oh, the Fed should only buy Treasuries," for other reasons, but it's interesting that other pre-commitments are out there. And then the failures of 1933 really stand out. So this was— the Fed was independent and it said, "Well, we want to defend the gold standard above all other things." I don't think the elected— this was a case where a little giving in to politics might have been useful for the Fed. So was that a case of independence that went too far or rules that went too far? What's the big lesson from that huge failure in 1933?

**[03:29:19.47] - Michael D. Bordo**

Yeah, so I mean, it was both of those things. I mean, it was independence that went too far because if you're independent, you have to be accountable. And if you're independent, it means you have to follow sound policy, which means you have to be based on sound economic theory, okay, and you have to have good understanding of what's going on. And so there are different, there are different interpretations of what went wrong, okay. Some people argue they followed the real bills doctrine. Friedman blamed it on the fact that the Fed's governance was totally— didn't work, and that none of the people in the Fed could communicate after Benjamin Strong died, okay. Barry Eichengreen argued that it was they adhered to of the gold standard, and they were really worried. This is not so much in '33, but in '31 and after, they were worried about free gold. So there were a lot of problems which, in a sense, the system was dysfunctional. And because you've got this dysfunction— and there was nobody overseeing it. You didn't have accountability. The Fed really— there was no one saying, you're making these mistakes. There were people like Irving Fisher who were writing at time.

**[03:30:29.22]**

There were people who were really critical of what the Fed was doing. There were people who thought they understood what was going on. Okay, but there was no feedback from the criticism to what they were doing. So that's why— that's Friedman's argument. Friedman's argument, you know, you had good people in the '20s. You had Benjamin Strong. He understood things. He had experience with the crisis of 1907. He had international experience. Experience, okay, and so things he, according to Friedman, that in the '20s we had the things work and they figured out the functional problem of the Federal Reserve, which was that each reserve bank had its own discount policy and they weren't coordinated. So, they figured all that out, but yet, you know, he died and then the whole thing fell apart. So, obviously, the fact that it depended on one very smart guy to make it work, for about 8 years, OK, that's not— you don't want something like that. You want to have some institutional continuity. OK, and that's where the accountability comes in.

**[03:31:34.56] - Ellen Meade**

Would there be any further comments here before we go to the next question?

**[03:31:43.58]**

Oh, OK.

**[03:31:46.22] - Audience**

So in early 1930s, there are certainly failures of independence, but you should remember The Secretary of Treasury was the chairman of the Fed board. That was Andrew Mellon. And Andrew Mellon was the dominant force in dictating the eligibility requirements for the discount windows. And he was very restrictive. So a lot of the failures of lending is not due to the independence, which bedeviled the monetary policy, but to the dependence coming through the discount lending policy. And so I'd say that there was problems both with independence and dependence at that time. And then in the bigger picture, here we see how Congress intervened, right? So early on in the Depression, Congress realized there were serious problems with the design of the Fed and the operation of leadership. They passed numerous acts. And in the end, this is the one time where Congress removed all the leaders of the Fed.

**[03:32:46.02]**

The Fed.

**[03:32:47.12]**

So with the Banking Act of 1935— so in '33, they transferred control of monetary policy to the president. And when they did the final wrap-up, they removed all members of the Federal Reserve Board and all the bank presidents to say, Congress has decided it's your fault. You're gone. We're bringing in a new structure with new personnel.

**[03:33:12.47]**

So Paul just said the gold standard was wrong.

**[03:33:17.36]**

Is it still excusable that the gold— they didn't know the gold standard would be vulnerable to deflation. After all, it had worked for 400 years.

**[03:33:30.03] - Ellen Meade**

Yeah, so this is a great—

**[03:33:31.41] - Audience**

This is due to full franchise democracy.

**[03:33:33.51] - Ellen Meade**

—lunch conversation.

**[03:33:40.11]**

Thank you very much, everybody. Thank you, panelists. And we'll have 30 minutes for lunch.

**[04:05:55.38] - Anna Gelpern**

All right. It'll be really embarrassing if the law panel doesn't start on time, so please take your seats. Right now. Thank you. I'm Anna Gelpern. I'm a law professor at Georgetown and a non-resident fellow here at the Peterson Institute. I am immensely grateful to Adam, to David, to John for putting on this conference, including a panel on legal and constitutional perspectives on central bank independence in this important conference, for making our panel robustly interdisciplinary and including both theory and practice perspectives on the panel and of course in the conference, and not least for inviting me to chair it, which it is my honor and privilege to do. So earlier today, I was struck by Randy Kroszner's comment that Fed policy outcomes, at least as observed in the market reactions, have been relatively benign, at least relative to the

pearl-clutching expectations earlier this year. And he suggested at least in important part that is because the markets believe in the credibility of another institution, namely the US Supreme Court, in bolstering Fed credibility. And therefore, nothing to worry about, or not a whole lot to worry about. So now that we know that Fed credibility is a function of the credibility of a legal institution, I think that we can put to rest the age-old chicken and egg debate about the relationship between law and economics and hand ourselves over to the Supreme Court's view of precedent.

**[04:08:04.39]**

As Gary Richardson said earlier today, it's somewhat idiosyncratic. Perspectives on history and tradition when it comes to central banking. Also, Alexander Hamilton was a lawyer.

**[04:08:20.00]**

I just thought I'd say that.

**[04:08:23.26]**

This panel is a terrific opportunity, I think, for us to step back and try to arrange some of the words that we say and hear repeatedly words like rules, mandates, removal powers, accountability. Who is this guy Humphrey anyway, and why do we care? And of course, independence in something like a coherent institutional framework. And then to consider the political and philosophical predicates for these institutional designs, which would then help us put the pending cases in the broader context that came up certainly in the fireside chat earlier between John and Larry Summers. So couldn't wish for a better panel. We're starting with my Georgetown colleague, Steve Vladeck, whom we poached from University of Texas Austin. He is, among many other things, an expert in constitutional law, federal courts, the author of a bestselling book that someone in this room referred to as a murder mystery called *The Shadow Docket*, and a mandatory Substack called *OneFirst*. He will be followed by a wonderful economist, Karla Binder, who is still and very much at UT Austin at their new School of Civic Leadership and has done some really important research on public perceptions underlying central bank legitimacy and some really interesting comparative research in this area.

**[04:10:25.15]**

Lev Menand is a law professor at Columbia, who has, in addition to his prolific scholarship on the Federal Reserve and US monetary law in particular, which is a really unique contribution, has also worked at the Treasury and the New York Fed. And we close with Paul— I'm not going to call you sir— Paul Tucker, who was the Deputy Governor of the Bank of England. Before his

current position at Harvard. Of course, he is also the author of an important book, an prescient book perhaps, on the subject Unelected Power, which talks about the big ideas behind central bank legitimacy. So with that, I hand it over to Steve, followed by Carolah then Lev, then Paul. Thank you. Great. Thank you, Anna.

**[04:11:30.18] - Stephen I. Vladeck**

It's a real treat to be here. I was saying to my wife this morning that something must have gone very, very wrong for it to be appropriate for me to be speaking at a conference like this. I leave to you what went wrong. So my job is to basically set the stage for, I think, most of the discussion we're going to be having him on the panel this afternoon, and basically get us from 1935 to the present through the Supreme Court. So a lot of what we're dealing with today when it comes to central bank independence and the Supreme Court traces back to a 1935 Supreme Court decision. Anna already referred to poor Mr. Humphrey, who, by the way, was dead by the time of Humphrey's Executor. That's why it's Humphrey's Executor. That's a law joke. For the—we joke about dead people. The significance of Humphrey's Executor is that the Supreme Court unanimously affirmed the constitutionality of statutory protections for commissioners on the Federal Trade Commission and like independent agencies. This was a significant rebuff of President Roosevelt. This was part of what was known as Black Monday in the Supreme Court. Universe. I know you guys use blackened days to mean something else.

**[04:12:45.53]**

Humphreys Executor came to be the foundation for really dozens of comparable for-cause removal protections in statutes covering just about the whole gamut of executive branch agencies. It stayed that way. It has stayed that way, at least for about 85 or 90 years. It really was only in the 1980s that we first saw the rise of what has been called the unitary executive theory, I wish I could tell you it was really sophisticated. It really is just the basic argument that the first sentence of Article II of the Constitution, by saying that the executive power is vested in the president, means, "And nobody else," and that's it. It was first embraced, I think, in a visible sense by Justice Antonin Scalia in a solo dissenting opinion in 1988 in the Morrison v. Olson case, Morrison was not about an official like poor Mr. Humphrey. Morrison was about an inferior officer, in that case, the special counsel or the independent counsel within the Department of Justice, where there was a similar for-cause removal restriction. Justice Scalia suggested that that restriction violated this, at least to that point, never previously embraced theory. Scalia was a one-man band on this question.

**[04:14:05.49]**

All the way through really much of the rest of his tenure, and more importantly, the tenure of Chief Justice William H. Rehnquist. For as conservative as Rehnquist was, for as much of a defender of executive power as he was, he never embraced this theory. In fact, he wrote the majority opinion in Morrison from which Scalia was dissenting. It's only after John Roberts becomes Chief Justice and Samuel Alito replaces Sandra Day O'Connor that we now start to see a real push to get the court to embrace more of the unitary executive. This starts in 2010 with a case called Free Enterprise Fund, where a 5-4 court says you can't have two layered levels of for-cause removal. This is a real sentence in a Supreme Court opinion. Chief Justice Roberts says, "Because two is greater than one." were really sophisticated. But that was— part of the theory of Free Enterprise Fund was that this multilevel for-cause removal was novel. And indeed, the court in Free Enterprise Fund went out of its way to say, obviously, we're not saying anything bad about Humphrey's executor or Morrison. Then Justice Kennedy retired. And within 2 years of Justice Kennedy's retirement, That changed.

**[04:15:25.03]**

The court said lots of nasty things about Humphrey's executor in a case called Saleh Law v. CFPB. In the Saleh Law case, the court struck down for-cause removal protections for any agency where the head was one person as opposed to a multi-member commission, so the single-director agency model. But it went further. The parts of the opinion that were were joined by all the conservative justices and none of the Democratic appointees, actually formally embraced the unitary executive theory, basically holding out Humphreys Executor and Morrison as these two outlier exceptions. Unless it was an agency following one of those two models, any restriction on direct control by the president was per se unconstitutional. That's where things stood on January 20th, where basically novel structural arrangements would be problematic if they insulated agency officers from direct presidential control. But as long as it was on the Humphreys Executor or Morrison model, it was fine. Of course, the Humphreys Executor model also encompasses the Federal Reserve Board of Governors. Then President Trump came to office in January. Very early on, the Justice Department signaled its interest in pushing the Supreme Court to overrule Humphreys Executor. Indeed, they set out to test this by firing without cause a whole slew of members of Humphreys Executor model commissions.

**[04:16:59.59]**

I'm sure it was a coincidence that all the people who were fired were Democrats. The Merit Systems Protection Board, the National Labor Relations Board, the Consumer Product Safety Commission, and the Federal Trade Commission. We saw the president try to fire all of those folks. In all of those cases, federal district courts said, wait a second, Humphrey's Executor is still the law. Obviously, we're not going to let you fire these people. In all of those cases, the

courts of appeals agreed and denied the Trump administration's request to let him fire them while the cases went ahead. In all the cases, the Supreme Court issued its own stays. This is part of a broader phenomenon where the court over the last 9 months has been incredibly aggressive in granting emergency relief to the Trump administration. Just to put this in context, the administration has sought emergency relief 30 times since January 20th. The Bush and Obama administrations between them in 16 years, sought that relief 8 times. We've gone from once every other year to once every week and a half. That's a big difference. One of the focuses has been these cases. It has been the cases about firing these kinds of senior agency officials without cause.

**[04:18:19.51]**

The first of these that the court acted on was called Trump v. Wilcox. This was in May. One of the reasons why people like me had been a little bit not not sure what the court would do is because there was this assumption that the court didn't want to touch the Fed, and that if you went after Humphrey's executor, the collateral damage would be the Fed. Well, not to worry, said the Supreme Court on May 22nd. In a ruling that cleared the way for President Trump to remove members of the NLRB and MSPB, the court wrote, "The Federal Reserve is a uniquely structured quasi-private entity that follows in the distinct historical tradition of the First and Second Banks of the United States, period, close quote. I don't think I need to tell you how completely stupid that sentence is. But it was the basis on which the Supreme Court said, don't worry, markets, we're not coming for the Fed. Then we had later this summer in July, a district court had tried to say, well, wait a second, that was just about the NLRB and the MSPB. Obviously, the Consumer Product Safety Agency Commission is totally different.

**[04:19:25.19]**

The Supreme Court said, nope, not different. Then we had Rebecca Slaughter, who was from literally the same agency as the agency in Humphreys Executor, the FTC. Lower court said, well, that's different because that's literally the facts of Humphreys Executor. And the Supreme Court said, nope, not different. And we're going to grant certiorari before judgment, meaning we're going to jump over the intermediate appeals court to decide if we should overrule Humphreys Executor. Parentheses, we already did. The Slaughter case is going to be argued in December and raises the Humphreys Executor question. Then there's also a second question about what the remedy is for cases in which someone is unlawfully removed from office. That's especially important because you all know about the fourth of these cases, which is the Lisa Cook case. In the Lisa Cook case, The administration, taking cues from that brilliant sentence in Wilcox, did not purport to fire Cook without cause, but rather it purported to invoke cause for removing Lisa Cook. Lower court said no. The Trump administration once again went for a stay.

This time, instead of granting a stay or denying a stay, the court chose door number 3, which was to defer to defer its ruling on the stay pending an oral argument in January.

**[04:20:47.17]**

This is really weird and unusual. It's only the 5th time since 1971 that the Supreme Court is hearing an oral argument on an emergency application. It suggests that the court is, at least in some respect, waiting to see what happens in the Slaughter case. I know Lev is going to talk about this a bit. It also suggests that the court is continuing to be very mindful that in its rush, and I mean rush, to embrace the unitary executive theory and to relegate Humphrey's executive to the dustbin, it wants to still come up with some way to carve out the Fed, even if that way is completely, utterly, and unredeemably analytically unpersuasive. Why don't I stop there and thank you very much.

**[04:21:43.38] - Carola Binder**

Hi everyone, thanks a lot to everyone at the Peterson Institute for having me. I should probably also thank my husband who is heroically preparing to take 5 kids trick-or-treating by himself in an hour or so. So I'm an economist, my other economist Participants earlier today have outlined some of the key practical benefits of central bank independence. Economic theory, historical experience, and empirical evidence point to the importance of at least monetary policy independence for price stability and other favorable macroeconomic outcomes. So recent threats to central bank independence in the United States are therefore an obvious cause of concern, though, uh, maybe not in Larry Summers' top 100. Um, but it is worth taking a step back to ask where these threats are coming from and why they seem to be escalating. And what I would like to emphasize is that independence requires legitimacy. The deepest threats to Fed independence come when legitimacy is lacking. So the surest way to safeguard independence is to bolster legitimacy. It's not enough to make the empirical case for the benefits of independence. It's not enough for the Fed to use its independence to achieve outcomes that most of us would consider good.

**[04:23:06.58]**

The ends don't justify the means. The means must be legitimate. So let me explain what I mean by legitimacy, and I'm actually going to use the same 1962 Milton Friedman piece that Michael Bordo already mentioned. So Friedman said that the device of an independent central bank embodies the very appealing idea that it is essential to prevent monetary policy from being a day-to-day plaything at the mercy of every whim of the current political authorities. And then Friedman asked, is it really tolerable in a democracy to have so much power concentrated in a

body free of democratic control? And he was asking this question rhetorically. His answer would have been no. Now, I think we would mostly answer this, uh, maybe, and it hinges on that word tolerable. So legitimacy is what makes it tolerable. Legitimacy is usually defined as the belief that an authority or institution is rightful, appropriate, and just. For an institution, um, in the United States, for an independent agency in the United States to be considered legitimate, it also must be created and structured in a manner that upholds constitutional principles and core political values, including accountability, the separation of powers, and the rule of law.

**[04:24:26.06]**

This is extraordinarily important when the independent agency is extraordinarily powerful, as is the case for the Federal Reserve. So the Fed, um, faces constitutional or structural challenges to its legitimacy stemming from modern Supreme Court jurisprudence that has become increasingly skeptical of independent agencies and the administrative state. Daniel Tarullo wrote that the low-intensity offensive against the administrative state that has been waged on the conservative justices— by the conservative justices of the Supreme Court for well over a decade has escalated in the last several terms, and Stefan just explained this in more detail, but I think this removals issue is the most pressing for the Fed right now following some of the recent cases that he just discussed. I would just say that an overturning of *Humphrey's Executor*, if it happens, would greatly expand the President's control over the administrative agencies, including possibly the Fed, and at a minimum would leave the Four Clause Removal protection of Fed governors on weaker footing. Regarding appointments, um, Article II requires officers of the United States to be appointed by the president with the Senate's consent. The Congress can vest the appointment of so-called inferior officers in, uh, the heads of departments.

**[04:25:49.19]**

So here too, there's some grounds for doubts about the Fed structure and government. In particular, the 5, um, voting regional Fed presidents on the FOMC would seem to be officers of the United States. So if it, you know, turns out that they are primary officers rather than inferior ones, then their appointment by private boards would violate the Appointments Clause. So, you know, based on the standard in a recent case called *United States v. Anthrax*, it doesn't seem outside the realm of possibility that the reserve bank presidents on the FOMC are primary officers. And the third important trend here that's potentially challenging for the Fed is renewed interest at the Supreme Court in the non-delegation doctrine. The Fed's mandate to promote maximum employment, stable prices, and moderate long-term interest rates is a broad delegation of authority that has not been seriously challenged and seems unlikely to be in the near future, though it might face more scrutiny. In the face of these constitutional questions, the

Supreme Court has indicated that the Fed might claim special historical status or be some anomaly justifying an exception. As has been noted, the court called the Fed a uniquely structured quasi-private entity, and Governor Lisa Cook is able to remain in her position while awaiting oral arguments in her case early next year.

**[04:27:25.11]**

The thing about these exceptions carved out just for the Fed is that they risk appearing arbitrary. If the exception comes because the Fed is important, well, so are many other agencies. If it's based on historical precedent, we've seen that the history is quite complicated, and the Fed of today is not the same as the First and Second Banks of the United States. So a Fed exception based on pragmatism and lacking a coherent generalizable principle might not hold up indefinitely if popular and political consensus supporting Fed independence erodes. And here, there is some cause for concern. For example, this recent poll shows that just under half of Americans have a favorable opinion of the Federal Reserve, and many also— don't have an opinion at all. Opinions about the Fed are highly politicized. So about 47% of Democrats versus 18% of Republicans approve of how Jerome Powell is handling his job as Fed chair. Also, in recent years, we see that most survey respondents on the Michigan survey say they have less trust in the Fed than they did 5 years prior. That's regardless of their political party, but we also see that when they share a party with the president, their trust declines less.

**[04:28:59.33]**

This kind of partisan nature about trust in the Fed shows up in inflation expectations, even in longer-run inflation expectations of consumers. So I'm showing you in the top the median long-run inflation expectations of Democrats, Republicans, and independents. And you can see they're highly partisan. So when people are of the same party as the president, they have lower inflation expectations by a lot. That gap also has grown by a lot. But starting in recent years, Republicans and independents expect higher inflation. Expect much higher long-run inflation than Democrats when Biden was the president. Also, a recent study by Boston Fed researchers Philippe Andrade and Michael Wickline finds that rising salient prices and broad-based inflation do not fully account for the rise in inflation expectations. There's a large unexplained portion of the rise, that gray area on the right, that They say, you know, should be interpreted as a sign that inflation expectations are weakening among consumers, even if we're not seeing much in the financial markets, as earlier panelists pointed out. Median long-run inflation expectations recently are— have risen quite a lot for consumers, and uncertainty about long-run inflation has risen probably the most dramatically, and is actually higher than it has been even in the late 1970s and early '80s.

**[04:30:36.58]**

So anchoring of expectations, for consumers at least, does seem to be weakening. I take all of this survey evidence as warning signs that legitimacy with the public is on shaky grounds, which leaves the Fed more susceptible to attacks on its independence. The situation is exacerbated by President Trump's public criticism of the Fed and its officials, but we shouldn't think of it as being specific to this administration. Large government deficits and soaring interest costs on the national debt imply that there will be continued pressure to make monetary policy subservient to the government's funding needs. So, no, the way I see it, there's two different categories of solutions here. There's solutions imposed from without, say by Congress, and there's solutions that the Fed can impose from within or adopt preemptively. For example, the Fed could provide greater transparency about the monetary policy rule it intends to follow and how they plan to use unconventional tools in possible future scenarios. That's something that I would have liked to see more discussion of at the framework review. They could let the framework reviews be more open and more encompassing of possible criticisms of the Fed. Yeah, so to close, I would just like to remind you that recent trends in jurisprudence toward the administrative state didn't come out of nowhere.

**[04:32:07.01]**

Courts, like the general public, increasingly perceive agencies as politically influenced and partisan rather than neutral scientific bodies. Even if the court upholds the Fed's current structure in the foreseeable future, lingering doubts about its constitutionality will exacerbate problems of partisanship and low trust. Thank you.

**[04:32:30.06] - Lev Menand**

Thank you, Anna. Thank you to the Peterson Institute. I want to start by saying that whatever we think about the institutional design of the Federal Reserve and the monetary system over which it superintends, whether we should have more or less autonomy in the various bodies that compose the Federal Reserve, the way to change that system is through the legal process and not through assertions of constitutional power to override the statutory scheme, various executive branch forms of overreach that really degrade the rule of law, and judicial accommodation of such assertions. One of the big risks we have right now is sort of a loss of legal regularity. And so even if you thought the Federal Reserve or should serve at the pleasure of the president. This isn't the right way to go about achieving that goal. There are 4, I think, big areas of risk to legal regularity as it relates to the monetary system. 2 have given rise to cases that are now before the Supreme Court. This is the Slaughter case and the Cook case. Haven't led to litigation yet, but might in the coming months. One comes from the president's Executive

Order 14215, which purports to seize directory control over certain aspects of Federal Reserve policymaking.

**[04:34:15.44]**

And the other has to do with the reserve banks and their status within the system. So I'm just going to say a few words about each of these four areas of risk. There's a lot to unpack, and maybe we could dig in more in the panel discussion. On the slaughter case, there's a lot at stake. Most of it is not for the Fed post-Wilcox. How the court rules is going to matter a lot for the court's own legitimacy, for the ability of other agencies to carry out their responsibilities in the public interest, for the power of Congress, for US state capacity going forward. I think it's fairly clear the Fed is going to be spared from a ruling that its design is unconstitutional, with one asterisk that I think is an unlikely outcome but worth fighting against. If the court were to choose a rationale that would try to distinguish between the regulation of banks on the one hand and, quote unquote, monetary policy on the other hand. What it said in Wilcox suggests it's not going down that road. But were it to change course and embrace this view, which is the administration's view, this would be a huge problem for the Federal Reserve.

**[04:35:35.58]**

Such a distinction is illusory. It's deeply confused. Bank regulation is monetary policy and vice versa. We tend to shift gears in terms of the expansion and contraction of the money supply through overnight interest rate policy. But of course, we implement overnight interest rate policy through notice and comment waived— good cause notice and comment waived rulemaking by the board. We regulate the banking system. Reserve requirements are bank regulations. So monetary policy is implemented through— through bank regulation. And of course, bank regulation is monetary policy. You can counteract a tight monetary policy with a very, very loose bank regulatory policy. I'll come back to that. Let's turn to the Cook case. The Cook case is about just how much a protection the statutory removal limits really are, assuming they're constitutional. So let's say the Fed is carved out along the Wilcox line in the Slaughter case. Does it really get us very much, or do we have central bank independence sort of superficially, but not really in practice? The president's position in the Cook case is that the for-cause language in the Federal Reserve Act is basically a political check, not a legal check. On removal. The president has to give reasons publicly, but the courts can't review the adequacy of those reasons other than to ensure that they are not, on their face, simply policy disagreements.

**[04:37:11.56]**

The president also has no right to note— the president also says that there's no right to a member of the board to notice and an opportunity to be heard. There's no due process. In the alternative, the president argues that whatever it is that happened in August was sufficient process if there is a process requirement. The president's arguments sound in statutory interpretation. He says the term for cause is a broad delegation, or his lawyers say courts are meant to defer to the president's interpretation. The statute doesn't say anything explicitly about a hearing or notice, but there's also a constitutional overhang to these arguments. The court has been so keen to defer to the president and has conceptualized presidential power so closely with removal that there's a lot of force to what the president is saying within the framework of the unitary executive theory, which the court has been increasingly embracing. I think the president is mostly wrong, and I think he's also likely to lose the Cook case. I think that for cause is a legal term of art, and that it was clearly established at the time Congress wrote the act that it denoted, as a matter of fact, statutory right, notice, and an opportunity to be heard.

**[04:38:25.28]**

I think that for cause requires judicial review, and indeed, it was designed to recruit the judiciary in policing the executive's use of removal authority. The idea was to prevent political removals and pretextual removals. Unfortunately, I think this is a hard pill for the majority on this court to swallow because the court has become so allergic to checking the president.. But this was very much the idea, um, in 1913 and 1935. This was the state common law that the federal legislators were importing. Um, it happens to be the case that the for-cause language is different from the language found in statutes like the Federal Trade Commission, which use three specified causes: inefficiency, neglect of duty, and malfeasance in office. All three of these relate to job performance. They were meant to allow the executive only to remove for serious failings on the job. They confer a judicial-type tenure. For cause was, in fact, meant to give the executive more leeway to potentially remove for other causes, like incapacity, incompetency, ineligibility. Under the state common law of removal in the early 20th century and in the late 19th century, courts looked to the office at issue the specific case, and they assessed what cause was legally sufficient given the circumstances.

**[04:39:45.46]**

This is a common law idea. This means that the Supreme Court actually has the discretion, not the president, to decide what sorts of causes qualify for members of the Board of Governors. I think the courts should read the clause very narrowly, especially given the purposes of the statute and the powers of the Board of Governors. I think they will avoid reaching this question. I think the most likely outcome is a narrow win that kicks the case back down. How the court handles this really matters because it will determine how likely this president and future

presidents will be to attempt similar removals in the future. There's no real federal case law on this, and so this case is going to tell us a lot. Let me briefly mention the other two. Areas of legal risk. The EO. The president has asserted that only the monetary policy functions of the Fed are sort of constitutionally appropriately independent from the White House, and therefore regulation and supervision of financial institutions should be subject to White House direction, including all rulemaking proceedings and legal interpretations. This is unprecedented and would hamper the board Congress never intended this, and the attempt of the White House to usurp this power, which follows in the tradition of the Reagan administration's usurpation of similar power over executive agencies in 1981, is very concerning for some of the reasons I was mentioning earlier.

**[04:41:15.28]**

I'm just going to highlight one now. A president who controls bank balance sheet regulation can influence and potentially dominate interest rate policy. Even without direct influence over the people who set that policy. There's a whole literature in economics about countries that have independent bank regulators from the central bank. But what isn't being conceptualized in that literature is, does a president control the bank regulator? If the president controls the bank regulator and wants a dovish monetary policy, it's going to be very hard for the central bank to counteract that. And it will have to use probably more stringent interest rate policy to do so. The second threat I just want to mention that isn't being litigated right now involves the reserve banks. We heard a little bit earlier about how all the reserve bank presidents are up for reappointment. There is also a question of the power of the Board of Governors to remove reserve bank presidents and whether reserve bank presidents serve at the pleasure of the Board of Governors or are similarly for-cause protected. A number of government lawyers have taken the position that they serve at pleasure, which would mean that 4 members of the Board of Governors could use a variety of tools at their disposal to try to abrogate the effective independence of FOMC members.

**[04:42:46.31]**

Reserve Bank representatives, which could lead to a real change in the way monetary policy is formulated. OK, I'm basically out of time. I just want to end on a sunnier note, which is I think that the most acute period for the Federal Reserve is behind us. Things could obviously—there's any number of shocks that could come. But the momentum has been shifting towards a consensus that whatever happens with the unitary executive theory, it would be a bridge too far to mess around with the institutional design of the Federal Reserve. And that's why I think this conference and more gatherings like this are an important opportunity to sort of consolidate an understanding that independent institutions that are created by law perform a very important

role in our economy and our democracy, and that it's an off-the-wall idea to try to abrogate that outside of the legal process.

**[04:44:01.34] - Paul Tucker**

Well, first of all, thank you very much to Adam, David, and John. Inviting me to be here. I'm— as I don't hang out with central bankers and former central bankers very much anymore, I do something else. But, um, I mean, this is so important, um, well beyond central banking itself, that I really was delighted to be invited. And I was— I probably wouldn't have accepted any other panel than this, and I was very glad that Adam asked me to be on, on this, this panel. Um, independent or not, central banks are shaped by law with legitimacy criteria in the background. Just a little bit of biography. I was involved at different levels of seniority in 3 major legislative reforms of the Bank of England. The final one where I guess I was de facto the decision taker at the Bank of England. We urged government and parliament not to give us certain powers and largely prevailed in that. And I mention that because this is not within the kind of habitual culture of the Federal Reserve. We also, for some of the powers that we— Dan's saying no, but actually I had conversations before you were there with the Fed about volunteering to give up certain powers, and, um, which I think could have been given up, and that didn't happen.

**[04:45:32.45]**

The second thing we did is that some powers we actually were not only prepared to accept but positively wanted, um, we urged the government to put more constraints around them than they initially, um, wanted to. Um, the The day has been conducted as though this is all about the Fed. In some ways, it's all about the legitimacy of the Supreme Court, and not only because he passed away, um, not so long ago. I'd like to recommend Dick Fallon's book on the legitimacy around the Supreme Court, which is— I mean, that may be the most important takeaway for many of you. Um, I want to offer an argument, a rather simple argument, about why monetary independence is different from everything else, including having supervision and regulation in the central bank, which obviously I was defending with Mr. McHenry earlier. So there's a risk, um, that all the, all the granular arguments that people have set out plainly matter, and they're going to find their way into the into the judgment from the justices. But behind those granular arguments, there have to be some big principles. And I think there is one that applies to monetary policy.

**[04:46:55.04]**

So typically when people talk about the separation of powers, what they instinctively think about is the independence of the judiciary away from the elected, um, people. But there's another part

of the separation of powers, which is not only in your constitution, but is in the history of constitutionalism in my country, going back to the kind of middle medieval period, which is the king or the ruler shall not be able to tax the people without consent. This is the origin of having to go to Congress here, Parliament in my country, the Bundestag or wherever for resources each year. So this matters a lot because, second step in the argument, the monetary levers are always latently an instrument of taxation, most obviously by, via surprise inflation or deflation, but actually in more subtle ways even without massive surprises. What, what follows from that is a negative proposition. The negative proposition is the last officeholder who should hold the monetary levers in a constitutional republic, or what I would call a liberal democracy, but I understand the word liberal is used differently here, which I think has caused you a lot of problems. Um, the last officeholder that should have control of monetary levers is the head of the executive.

**[04:48:29.25]**

Branch.

**[04:48:29.26]**

It belongs ultimately with the elected assembly. Now, for much of our history, much of our modern history, so from the 1700s onwards, assemblies essentially solved this via the gold standard. The gold standard came up earlier, probably— there's no reason why, actually, the monetary people in you, among you, should know this, but I bet you few of you do, which is that when, say, during the Napoleonic Wars, my country, which was the top dog at the time, um, especially after we'd won the war with Prussian help, um, when we came off the gold standard and when we went back on to the gold standard, those were decisions not taken in Threadneedle Street, not taken formally in Downing Street. But taken in the parliament. The gold standard belonged to them. Now, I mean, I think that gives some succor to those that would like to go back to the gold standard in some way. John raised, John Cochrane raised the 1930s earlier. I think what happened in the 1930s, certainly in my country, but also here, is the gold standard Couldn't sustain itself under full franchise democracy. The, the kind of violence, if you like, um, of the, of the swings in the real economy imposed upon the people, um, by sticking to the gold standard strictly.

**[04:50:03.38]**

I think that was viable in the 19th century in essentially a property owning, um, property franchise based democracy, which lasted here. In some states until the middle of the 19th century. If something like that's right, then the question— there aren't many choices left. One

choice is to have a committee of the legislature. With a sweep of a hand, I'm going to say that isn't feasible in practice, um, both normatively given what the legislature is for, or practically given their real-world incentives. So delegation to a central bank, delegation from an elected assembly emerges as a solution to a problem of the separation of powers under full franchise democracy. It then poses the question, a vital question, which I'm not going to address, but I have addressed elsewhere of if you're going to do that, what constraints should be on that institution so that you are not creating a kind of unelected king rather than giving powers to an elected king or ruler. I'm not going to address that, but I plainly think it should be done. But I think when arguing, I think when the high-level question comes up, as to whether the court here or the court anywhere else in constitutional democracies should accept laws that give the monetary leaders to the executive branch, I think the answer, no, they should not, lies in one of the very most basic principles that is not only enshrined in the Constitution, but motivates the Constitution.

**[04:52:00.32]**

Itself. I could stop there, Anna, but have I got any more time left? Okay, let me— so I'm stopping there in terms of the argument, um, except to say perhaps one thing, which is when I ran this— that argument is in Chapter 12 of my Unelected Power book, which is some years ago now. When I put it to a few constitutionalists at the time, they said, well, no, the president would have to go to Congress for approvals for spending anyway. And I kind of looked at them with bemusement, say, really? I mean, the reason spending had to get approved in assemblies is because the executive ruler couldn't get the resources to spend. Without consent other than by going and taking them through coercion. So the spending argument, um, risks being paper, um, thin. Let me just say something about other, um, agencies. I think partly for the reasons given and partly perhaps for some other reasons, one can distinguish between the current FTC case and cases with concerning the Fed. So everybody here knows that after, after a general election, if there's a change of administration, it is now an established norm that the heads of the chairs of the SEC, CFTC, FDIC, FTC, FCC, everyone else surrenders their resignation and retires.

**[04:53:44.53]**

And given the 3-2 structure, what this, what this does is give, um, the majority to the incoming administration. That does not happen at the Fed. There's no such norm that it should, um, happen. That is tremendously important in terms of social norms to equate the independence of the SEC with the independence of the Federal Reserve is to make a category mistake. I suggest to you that in terms of indicia of independence, which I'm not normatively warranting, which is what it means to be independent, there are 3 things. One is president or the prime

minister can't get out of bed and say, I'm sick of this person, you're sacked. The second is that the Treasury Secretary can't get out of bed and say this is what you should do. There should be no law that gives them a directive power, or it should be— if there is a law, it should be for carefully specified emergency type situations where there is a carve-out in the legislation. Such a thing exists in the Bank of England. We positively wanted that. And the third thing is that you should not have to go and get your funding from the elected assembly every year.

**[04:55:06.13]**

Because if you do, you, the parliament, the assembly, the Congress, it is undoing its intention to delegate something and putting it at arm's length. Now, the arguments for whether the FTC, FCC, et cetera, should be independent or how independent is another matter. I don't think they should all be. Independent, and I'm going to address that in a, in a new book. But the monetary authority is different. If the Supreme Court decides that the president can control the monetary levers, your country will have given up one of the most basic principles of constitutionalism, the separation of powers. And it would be ironic that that holds up in a parliamentary democracy. Democracy and not here. Thank you very much.

**[04:56:26.37] - Anna Gelpern**

So enormous thanks to this panel. We have so much to discuss. And I said I wasn't going to have persnickety questions. I lied. I have a couple of thoughts coming out of this discussion that it made me feel like we're sort of teetering on some kind of an edge, which I think is not an unusual feeling these days, but it did in very particular ways. So Steve, I want to start with you and really invite others to chime in. Maybe this entire discussion today is premised on this one sentence in this one non-opinion that you were bold enough to call really stupid. Well, I didn't tell you how I really feel. OK, we're going to talk about that later. But on the other hand, I think everybody here is like, all right, the Fed is special. The Fed is special. The Fed is different. We're going to be OK. Everybody else is going to go off into wherever. So fine, the sentence is stupid, but to the extent that the future of civilization depends on that one sentence, what's the— give me a better hook. And I want to get everything off my chest all at once so that I don't have to talk again.

**[04:58:00.16]**

So Carola, I was struck by your point on transparency. Right? Because some of what I took out of the conversation earlier today is that, you know, transparency can backfire in a number of ways. So kind of transparency 10 years ago and transparency now are different transparencies, and I would love to get your take on that. Lev, I am fascinated by the— by, well, by your take on

financial regulation and monetary policy, right? Because I think that that needs— I mean, I broadly agree, but in the US institutional design, that needs a bit more elaboration given that we've got a very complicated financial system. Even before it got complicated, we've got at least, depending on how you count, 3 to 4 federal bank regulators, then a bunch of non-bank financial constitution regulators, plus we've got states, right? So sort of so much financial regulation is already spread out in this administrative apparatus. What are we holding on to when it comes to the Fed? And then Paul, actually, that's also the issue on which I would love to get your take, right? Like, what is it that we absolutely must preserve and what can we give up?

**[04:59:34.39]**

And then what does it mean for everything else, right? Like maybe we're all in this room really worried about the Fed and if the Fed is going to be okay, we all feel better. But as you've all implied, what happens to the Fed has enormous implications to what happens to everything and everybody else. So maybe we can touch on that as well. So thank you all so much. And we have 4 minutes, is that right? Yep. And then everyone get your questions ready.

**[05:00:01.19] - Stephen I. Vladeck**

So I guess I'll go first just to get the ball rolling. So I mean, I think two things are true. The first is that Paul is surely right that there are plenty of coherent, thoughtful, intelligent grounds on which one could distinguish both the history and structure and the current response responsibilities of the Fed from almost all of these other alphabet soup agencies. The problem is that the unitary executive theory's absolutism can't brook any of those distinctions. And so, the issue is that once you accept that setting monetary policy, or at least that some feature of what the Fed Board is doing, is executive power within the meaning of Article II, the Supreme Court has rather trapped itself because it is so obsessed with the unitary executive theory. And the problem is that once you say, oh, well, the Fed is different because X, Y, and Z, then why can't other arguments be made that agency too is different for reasons X, Y, and Z? That's why I think the sentence I referred to was, I think, fairly described as stupid, because it's stupid not just in its inaccuracy, it is stupid in its shallowness. For the work it is trying to do.

**[05:01:16.31]**

I think one of the questions is whether whenever they write out the longer version of what Justice Elena Kagan called bespoke Federal Reserve exception, whether that's in *Slaughter* or *Cook*, do they do better? Because it seems to me that the problem here is, is it really that the justices buy at some deep level the intuitive argument that Paul so powerfully and elegantly

made for federal bank independence, or is it that they just know enough to know that they don't know what they're doing when it comes to monetary policy? And so for them, they view federal bank independence the way that Andrew Lang, the Scottish writer, said drunks view lampposts, which is a means of support, not a means of illumination. That's why I think this is so problematic, because I don't think the court actually has a theory to meet their own theory. They just have this instinct that even if it can be articulated, it wouldn't be articulated in a way that is responsive to what they have set themselves up for.

**[05:02:17.13] - Anna Gelpern**

Thank you so much.

**[05:02:19.58] - Carola Binder**

Sure.

**[05:02:20.22]**

So you asked about transparency, especially compared to maybe 10 years ago. And I think the Fed has gone through a decades-long, what often gets called a transparency revolution. This idea that moving from viewing monetary policy as more effective when it's kind of surprising the markets to something that's more effective when it's transparent. And I think that changed a bit in nature, especially under Bernanke and Yellen, who saw transparency really as the way of answering that question by Milton Friedman that I posted up, which is how is it tolerable in a democracy. They both said, you know, transparency makes it tolerable because by being transparent, then we're accountable to the public and that legitimizes our independence. But the question is what exactly— what's the right kind of transparency? Because what you don't want is just information deluge. They both emphasized communicating with the general public. As part of this effort for greater transparency. But a lot of the general public isn't that interested in paying that much attention to central bank communications. Part of the trouble then was in trying to gain the public's attention, they might have actually inadvertently politicized themselves a bit. So I think it's really Congress— they're accountable to Congress, and then Congress to the public.

**[05:03:49.03]**

So it's the communications with Congress Congress that are really important. And there, I think that's where I said, you know, in the framework review, they could have said more about, for example, how in different kinds of scenarios they would use different kinds of unconventional

monetary policy. For example, that would be the kind of transparency that would be helpful for Congress and then for anyone else in the public who, you know, happens to care about that.

**[05:04:16.25] - Lev Menand**

So I think it's pretty clear that 20th century monetary policy implementation depended upon bank regulatory tools because it depended upon reserve requirements. And so this was not monetary policy that looked like the Bank of the United States in the sense that The Federal Reserve was adjusting monetary conditions through its purchases and sales of Treasury securities or its lending alone. It was that paired with reserve requirements which created a scarce reserves framework. We now have a different implementation framework, but it too involves rulemaking. And so I think— Just when you unpack what does interest rate policy look like to implement, it turns out to involve regulatory tools. This is relevant because of what Steve was talking about. The way the court is thinking about the separation of powers involves distinguishing between regulation and other stuff. And you can't say that monetary policy doesn't involve regulation. So I think that point is clear. There's the further point that I was trying to make that I think that you're pressing against a little bit, that actual bank regulation proper in the sense of capital requirements, liquidity requirements, any number of requirements that affect the nature of the bank balance sheet, not the Fed's balance sheet, the balance sheet of the collective banking system.

**[05:06:07.02]**

Those rules are also a form of monetary policy. We don't adjust those rules because we've changed our view about how much monetary expansion there should be. But we could. We've made a choice of how to do monetary policy implementation. And so it matters who has control over the rules that govern the banking systems. Balance sheet. And if the Fed were to have all that authority stripped from it and put in, say, the Treasury Department, and the Treasury Department were to be put under the control of the president, so there would be no independence in how those rules are set, you have a monetary policy problem where a president determined to ease conditions would really, really relax the capital liquidity requirements to create money and credit expansion. It's true that we have the OCC right now. We have the FDIC right now. But ever since the Bank Holding Company Act, the Federal Reserve Board has been the apex bank regulator. And the OCC and the FDIC can't go out on their own and just relax bank balance sheets. The Fed is there. And so the question is, do we want that power to be taken away from the Fed so that they are cut out of the policymaking process for bank balance sheet regulation?

**[05:07:28.37]**

And do we think that that will just be fine for monetary policy independence? Or do we think the removal of those authorities, the Bank Holding Company Act authorities, will leave us with a central bank that is actually a lot less effective at charting an independent monetary policy path?

**[05:07:52.03] - Paul Tucker**

I'll try to be brief. So first of all, Anna, I agree with you that this happens in the context of a rising China. Somewhere in my second book, *Global Discord*, is the sentence, um, the Federal Reserve Building is an unknowing headquarters of the hegemon. Um, I, I am perhaps a little bit more relaxed about this full-scale attack on Fed independence than many of the people in the room. If the court strips it of independence by noon EST the following working day, people will be scrambling to change course, and there will be a bit of legitimacy crisis around the Supreme Court, which may be no bad thing in the great scheme of things. And that, by the way, isn't a partisan comment. I've thought your Supreme Court's in a bad way for probably 20 to 30 years, if not longer. I, I much more potent in terms of threats to central bank independence aren't overt attacks for the reason I just kind of alluded to, but actually where it's tremendously subtle. I would be much more worried about the appointment of, of a central bank chair, not just in this country, who looks like the real thing but actually is an ally.

**[05:09:13.14]**

And that has happened. I mean, Arthur Burns really did look like the real thing, but in the famous meeting ahead of the run— in the run-up to the election, it is Arthur Burns that says in the transcripts, 'The election's coming, we should get the economy going.' I would be much more worried about that. I think the arguments are different for supervision regulation function if that is stripped away because, because the market, because the markets will not respond adversely and act as a disciplining device to kind of moderate the, the attempt to undermine independence. It will only come when it's too late. And look what the '07-'08 crisis has done to this country and, and the whole, um, world. I want to say one thing on transparency very quickly. I mean, the chair just needs to be more visible across the nation. It— that there are regional feds is terrific, but the absence of the chair over the country and local media, television, radio elsewhere is remarkable. When Ben Bernanke did his first TV interview during the crisis, we initially couldn't believe it. The public are interested in hearing, or interested members of the public, and there are many millions, are interested in these things.

**[05:10:39.24]**

You need leaders that can speak in the language, that can kind of work down the pubs and clubs, as it were. But there has been name recognition across the United Kingdom of Eddie

George, Mervyn King, Mark Carney, and now Andrew Bailey. It's because they they did that. I bet Adam was on British television more when he was, um, an independent and non-executive member of the MPC to the nation and around the nation or the nations, um, than most, um, Federal Reserve Board governors have been. And I think that's, um I think that's a very great and rather obvious mistake.

**[05:11:28.11] - Anna Gelpern**

Thank you very much.

**[05:11:28.47]**

Let's collect several questions. So there are two right at this table, John, Dan, and then we have a roving microphone. And then, of course, there's a microphone standing back there. Great.

**[05:11:40.09] - John H. Cochrane**

Thank you. This is wonderful. And just why we bring economists and lawyers together so we can talk about I'm a little more sympathetic to the court in general and Humphrey, so I wanna probe a little bit and ask dumber questions. I don't think the founders anticipated there would be administrative agencies that legislate, regulations have the rule of law, interpret, police, prosecute, judge, and punish all in one place. I think they would have forecast, as happens, that that such an agency would go rogue, become captured, have its own agenda, and go off. And that certainly is sort of the Republican point of view of many agencies now. So there must be a mechanism at some point to vote the bums out, and it shouldn't take too very long. Now, against that, of course, we are founded on the rights of minorities. You don't lose an election 51-49 and lose absolutely everything.— that's the system of checks and balances and so forth. So in that, I'd like to know sort of the— not just what's in the law, but your law and economics, what's the right thing to do? How fast should that process happen? Are we by chance exactly at the optimum where the other agencies have overlapping Democrats and Republicans, and then there's a tradition that the chair turns in his or her Or I don't know, is that exactly perfect?

**[05:13:06.56]**

And the Fed is a little more? In some sense, we're fighting about, does he get to fire right away, or does he just have to wait until they turn over automatically? Or should Congress have a bigger say in being the ones who vote out the bum, who get rid of the bums when they're voted out or whatever? What is the, from your point of view, the right structure here, not just reading within the law of what we we've got.

**[05:13:38.44] - Audience**

Okay, sorry. So this is for Professor Binder. You had a lot of interesting data on trying to see the public sense of the legitimacy of the Fed now, and I was wondering whether work had been done on a more longitudinal basis so that we could to see whether there are sort of ebbs and flows in how the public regards the Fed. 'Cause, you know, I just think back when I was a young lawyer, people hated the Fed because that was when Paul Volcker had interest rates, you know, at 16%. And whether that longitudinal work, to the degree it's been done, tells you anything about the current moment.

**[05:14:19.10]**

Thank you.

**[05:14:23.35] - Lev Menand**

Yeah, just on John's question. So, I want to bracket for a second the optimal level of autonomy for administrative agencies and focus on the sort of underlying constitutional question that's lurking, I think, in your question. Because this second part, I think there's a very clear answer, which is, The design of the government under the constitutional system is a question for the Congress. Um, and the president has the veto power, but the founders didn't constitutionalize any particular departmental structure. In fact, offices with tenure, um, that the executive couldn't remove were quite a common feature of, uh, the English system. —against which the Founders crafted the constitutional system. So while it's true that the Framers might not have anticipated 20th century sort of agency administration, and might not have preferred, in their policy view, the extent of delegation that took place in the 20th century, they didn't create a constitutional system that prohibited the legislature from making those choices.— the Constitution was an enabling document that largely empowered the Congress to design the government, and that was the understanding of American legal elites through the 19th century. There was a real rupture, which we could talk more about, in the early 20th century, culminated in the Myers decision, a product of people very frustrated with what Woodrow Wilson called congressional government, wanted a more active executive.

**[05:16:11.11]**

Latched onto arguments first made by Andrew Jackson, that the Vesting Clause means that Congress can't do certain things in terms of the design of the government. This was a really outside view in legal elites, unless you were in the White House. Myers comes down, it's a split decision, there are 3 dissents, and 9 years later, the court does the best it can without reversing it to cabinet. Now what we have is a revival of this Myers idea, and I just think it's not consistent

with, really, the original understanding of Congress's powers, even if the motivations in terms of reforming the administrative state may be consistent with the sort of policy preferences of most of the founding generation, which could be true. In terms of the ultimate, the part that I bracketed, the optimal amount of autonomy in agencies, I think it's really a case-by-case thing, which is another reason why I would hate to sort of constitutionalize these questions. Sometimes, agencies should have more autonomy from other political actors to chart a policy course subject to a legal structure, and sometimes they should have less. And there's a lot of things that go into making that balance.

**[05:17:36.43]**

And I think that there are good arguments that, in a lot of cases, the balance hasn't been properly struck. And I thought a lot of what you said, in fact, this morning was persuasive about the need for changing the legal structures with respect to the Federal Reserve in some respects. But that should be done through the ordinary political process rather than through sort of a constitutional interpretation. Carla. Sure.

**[05:18:04.51] - Carola Binder**

So, I mean, the short answer is there's not great consistent longitudinal data asking people, you know, a consistent question about how much do you trust the Fed or something like that. You can kind of cobble it together from various Gallup polls and other surveys that have been conducted at, sort of sporadic intervals over the years. I think there is better data for— I think from the Eurobarometer, and I think the Bank of England and maybe the Bundesbank do collect those kinds of survey questions more consistently. So for the US, I think the most promising is actually just looking at inflation expectations data as a good proxy, and that goes back the Michigan Survey monthly through— back to 1978. So you can use that to see whether people's expectations are consistent with something near the Fed's target. And that might actually be more useful than asking them directly what they think about the Fed because, well, I've done my own surveys and a lot of people just simply don't know much of anything about the Fed, but you can still say the Fed is doing a good job people somehow think that inflation should be around 2% in the longer run, whether they know that's because the Fed is going to get it there or not, they just know— they just expect it because the prices— the Fed has done a good job of keeping prices stable, that, you know, that's this indirect sign of the Fed's credibility.

**[05:19:40.34] - Audience**

I guess the fact that the concern in the '80s was how high unemployment was, that whatever the public's view of— or expectations, sorry, of inflation, they still would have hated the Fed, right?

**[05:19:54.52] - Carola Binder**

Yeah, it's interesting to look at like newspaper headlines describing Paul Volcker while he was Fed chair versus a few years after when he— you know, I think a few years after the fact, people did appreciate what he did, but he wasn't particularly popular for it in the moment. So I want to ask Greg quick, do we have time for one more question, or should we just wrap up? I'll give you a chance to say something. I just want to know whether we should take one more question. No? OK. All right. Wrap up. Steve.

**[05:20:33.02] - Stephen I. Vladeck**

I'll just say two and a half quick things or two quick things and one hopefully quick thing. First, strikes me that of all the moments in all of American history to be asking if now in October 2025, we've reached the optimum when it comes to checks and balances with regard to presidential control of agencies, I will respectfully dissent from that proposition. I want to suggest that I think Lev is exactly right that The danger here is constitutionalizing what has historically been a very sophisticated ebb and flow of internal checks and balances along with external ones. Then really quickly, I just want to end with a very short anecdote that I don't think many people appreciate. Just as a matter of historical practice, when Congress created the position of Attorney General of the United States, who I think we all would reflexively view today as the executive officer above all of the other, —of all the cabinet officers who have executive power, it's the Attorney General of the United States. Congress used the passive voice to identify who would appoint the Attorney General of the United States because the Senate version of the Judiciary Act of 1789 gave that power to the Supreme Court.

**[05:21:41.59]**

Just as Congress had so recently said, the Secretaries of the Treasury and War and Foreign Affairs, now State, must be appointed by the president, Congress refused to say that about the Attorney General because it was messier. To this day, 45 of our 50 states do not have executive-appointed Attorneys General. 43 elect them directly. One is appointed by the legislature, and one's appointed by the Tennessee Supreme Court. This is all a lot more complicated than the unitary executive debate would have you believe.

**[05:22:14.02] - Anna Gelpern**

Thank you so very much.

**[05:23:02.24] - Joyce Chang**

schedule. So let me just quickly introduce myself and the topics that we are discussing. But I'm Joyce Chang. I'm Chair of Global Research at JPMorgan. It seems like I am the only market participant who is in the discussion. I really appreciate the invitation from Adam, all the work done by Dave and John, and also this panel because I think in the marketplace, everybody's had to become an amateur at watching the Supreme Court with so many of these decisions being taken up in the Supreme Court. I thought I might offer before introducing the questions and the panelists, just a market perspective on how we're looking at financial supervision and regulation. And I think that Anna and Lev teed it up very well, that the whole issue of Fed independence is really seen as being somewhat separate and not equivalent to how one should look at financial regulation. And there are really three things that I think you will hear from a lot of market participants when they look at the state of financial regulation right now. So first of all, there is, and I think John Cochran very well pointed out, is this sort of stuck in too big to fail?

**[05:24:16.00]**

And is the next crisis, given what has developed in the markets outside of the non-depository financial institutions in the digital assets, not going to be the same as the past crisis? And so, you know, what are the objectives and give clarity on the objectives and what the goals are for the bank supervision apart from preventing a bank failure, particularly as we see the financial markets changing so rapidly, digital assets, you know, and also so much happening outside of the banking system. The second critique that I think you will hear from the markets is about the complexity. So, uh, you know, there is the Fed, and nobody is saying that the Fed should be outside of this. But if you take a look at it from a banking perspective, you have an overlap of the rules on GSIB from CCAR, from Basel III. You have an overlap in the regulators from the OCC, the CFTC, the SEC, the CFPB, the FHA. I could go on, but But you know, one thing I would just urge you all to take a look at was a report that Bloomberg had put out a few months ago, just looking at the paperwork for financial regulation, which they estimate has required, looking at the— what has been filed with the OMB, about 51 million additional hours to bring this to 425 million hours of extra paperwork on financial regulation.

**[05:25:47.19]**

And I think there was a sense from many in the financial markets that, you know, are we actually looking at regulation that's actually in search of a problem over the last few years? And this is one reason why you've seen the lawsuit that has, you know, been filed against the Fed, really looking at this duplication and the complexity. So, you know, so I think those are some of the issues that come out, but accountability is, the other issue that the public should be able to

dispute supervision, you know, and do some of these marginal benefits necessarily justify the cost? And I think Larry Summers' point as well, are there some bigger issues that should be prioritized? I mean, like, one thing that has surprised me in the last week is with the decision to end QT, we've not seen a cost-benefit analysis of QE and QT. So, and I do agree that some of the acute concerns on Fed independence seem to have passed, very much the point that Lev made, because there is a sense that on the overall design and the institutional framework, you're not going to get the challenges, that the names that have been presented are not surprises to the marketplace, but I think the supervision issue is a different one.

**[05:27:02.34]**

So in this panel, this is a panel This is a great opportunity to discuss what aspects of the Fed's approach to financial regulation and supervision are working, which ones are in need of reform, what are the opportunities to really take a step back and reassess and improve the approach to bank supervision, and how to address, um, your risk of politicization, um, and what these implications could be to banking, financial stability, and the whole issue of financial innovation as more moves outside of the formal banking system. What is the best way to really regulate this? And I think that is one of the questions that we discuss at JPMorgan. Are you just pushing more activity outside of the banking system? So a terrific panel, and I will just briefly give you their background. They will each have about 10 minutes or so to lay out their case. It's wonderful to have Adam Posen, and I thank him for the invitation here. He led the Peters— leader of the Peterson Institute, shy to tell you all, but also I have followed his research on central bank independence really for my whole career in banking, and also his work that he did while at the Federal Reserve Bank of New York and also the Bank of England's Monetary Policy Committee.

**[05:28:18.39]**

Dan Tarullo, the no more president of International Financial Regulatory Practice at Harvard Law School, who returned to academia after more than 8 years as a member of the Federal Reserve Board from 2009 to 2017, where he had oversight for supervision and regulation, including the implementation of the Dodd-Frank Act. And he was also on the— representative for the International Financial Stability Board, including 4 years as chair of the Committee on Supervision and Regulation. Amit Saroo, who is the Stephen and Robert Denning Professor of Finance at Stanford Graduate School of Business, also a fellow at the Hoover Institute and the Stanford Institute for Economic Policy Research, and a research associate at the NBER. And Carolyn Wilkins, who spent 20 years at the Bank of Canada serving as the senior deputy governor, is now at Princeton as a visiting senior scholar with the Griswold Center. And I've been following a lot of the work that she does on the Bretton Woods Committee on the digital

finance project team. So a terrific group of speakers. Let me welcome Adam up now for his comments. And I look forward to hearing all of the panelists and to the discussion that will follow.

**[05:29:40.59] - Adam S. Posen**

Thank you very much, Joyce. Um, we were not trying to reduce the number of market voices, but if we were going to have a market voice, we were going to start with you. So, um, thanks to all of you who've stuck it out to this point in the day. Uh, I do think Joyce did a great job of setting things up because, frankly speaking, as was mentioned in the two previous panels, in various ways. I think this issue of defining the dividing line between monetary independence and what role the Fed has financially is where the rubber hits the road. That this for both operational policy reasons and for current political reasons, not to mention some of the reasons our legal colleagues spoke about on the previous panel is where the argument is probably going to be pursued at the Supreme Court and where, if there are changes made via congressional action, where it will take place. I think it's important to not just say it would be good to do whatever it takes in a crisis. I think we all recognize that such crises exist and that precedent, as was mentioned on the previous panel, exists in a large number of policy areas.

**[05:31:12.28]**

The question is more the day-to-day, month-to-month, year-to-year. I'm going to make, I hope, 3 points. First one builds on some things in particular in particular that Paul and Lev and others said on the previous panel, which is, but also earlier, I think Rich Clarida made reference to this. The first argument for having the Fed or any central bank in bank supervision and a related financial regulation is informational, that you need not only knowledge in the building and experience with banks per se, you need a certain amount of expertise, but additionally, you need a certain amount of real-time intelligence. And one does not need to be like Randy Kroszner, who I think used to be the George Stigler Professor at Chicago, to believe that regulators get captured and don't always have proper information and that information doesn't flow well just because there's something called an FSOC or a group of things. This came up at various times today. I think it is essential that a central bank have the ability to get transparency into various aspects of the financial system. And unless they have some amount of threat, frankly, they will not get the proper information properly to closed.

**[05:32:47.17]**

Full stop. In operational policy terms, which is where I come from, both as a researcher and briefly as a practitioner, I think it is necessary to realize that the information you get is critical,

not in the simple microprudential sense of is SVB Bank in trouble? It's, is this a leading indicator for a sustained downturn? Is this a something that will be regional or systemic? Is this something that tells us that certain indicators of credit and monetary conditions are correctly measured or not? You can't get away from these kinds of assessments. Eric Rosengren, the former Federal Reserve Bank of Boston president who couldn't be with us today, did a couple papers with co-authors at the Boston Fed several years ago about the role historically and econometrically shown that financial stability plays in central bank decisions, that you cannot easily separate monetary policy decisions from financial stability decisions. Because simple fact, most severe recessions are tied to financial stability problems. There are very few, with the exception of the Volcker recession, that were induced by monetary policy, even mistaken monetary policy, or by other things. You need a financial shock. To have serious fluctuations and persistent fluctuations.

**[05:34:36.08]**

So if you think about this in cost-benefit terms of practical operation, the information is worth an enormous amount. The second point relating to that, and Paul may have a slightly different memory of this, but it came up earlier, I think It was Alan Mead who brought it up, the idea that at one point the Bank of England hived off supervision pretty completely from monetary policy and got it out of the bank. At the time, as I was told by Stan, Stan Fischer, the dean of us all, said, "Don't do that." And one of the key reasons he said at the time, at least what he told me, was and supposedly told people at the bank was, you're going to get blamed anyway. The central bank ultimately politically is the ultimate accountable part for financial stability. And this goes to a point several people have made that operationally you're the only real lender of last resort that exists. So even if you want to keep plausible deniability, or some distance or some idea that that's really OCC's problem or FDIC's problem. It's ultimately the central bank's problem. And given that, you have to take— step up and take the responsibility.

**[05:36:05.13]**

The third point I would make, and this is probably the most controversial point, but I think it's at least as important as some of the others, is that, and this picks up on some points Lev was making from a legal perspective, I'll make it from a macroeconomic perspective. You need differentiated approaches to the financial system in order to be able to properly transmit monetary policy. We have this notion, because everybody moved in the '70s and early '80s as best they could in a period of partial deregulation, that we could do everything through the discount window and it was all going to be fine and this was superior. I have often said this falls in the category of nice work if you can get it. If you can have a financial system where simply moving and solely moving the discount rate transmits throughout the financial system and has

dependable, observable, reliable monetary transmission effects, Great. But there's a reason why throughout modern monetary history, and Michael Bordo has written on this among his many other topics, that there were periods where you had administrative guidance, where you had things that look like QE long before there was QE, where the Bank of Japan was buying and selling particular securities long before the 2000s, where the Bank of England and the Swedish Riksbank Deutsche Bank were engaged in all kinds of transactions.

**[05:37:41.05]**

And most importantly, what we saw not just in 2008 to '12, but in the COVID period, is in times of real disruption, you actually need to get your hands dirty and alleviate liquidity problems in specific places. And you have to actually monitor the transmission of monetary policy which may be quite different this time around than it was last time around, and that requires ability to get into specific financial markets. As many people have said, and this is a different reason, but I think a compelling reason for it, central bank independence is a means to an end. It's a means to good welfare outcomes for Americans, for other people in the world economy. If you can't do the job, you need to pick the tools. You don't define central bank independence by the tools, you define it by its utility in the outcome. And too often, if you deprive a central bank and narrow its remit to pure— what you consider pure monetary policy, or as I fear may be the case coming out of Congress and the court, defining it by pure interest rate policy because of the instrument rather than the ability to affect the economy, you will fail.

**[05:39:06.59]**

You will undercut the very policy that you're trying to maintain. My fourth and final point is about sort of where Joyce just started.

**[05:39:22.24]**

There are—

**[05:39:24.04]**

Conflict of interest reasons becoming very obvious why we need independent regulation and supervision, particularly of innovative new things like crypto. And there needs to be some distance and some permanent bureaucracy and barriers to the politicization and self-interest of how those get regulated and supervised. This is actually less about central bank independence in the Kidlan-Prescott-Rogoff sense, and more going back to things Anna and Stephen spoke about on the previous panel, more about the idea that the unitary executive and the dismemberment of agency independence in general is overdone. There's reasons why we have

had a development of independent agencies. In the financial regulatory sphere. And so instead of saying, as was pointed out, oh, it's maybe okay if the Fed gets a carve-out, it's if anything the opposite in this sphere, that the Fed needs to not be carved out. We need true regulation. Let me be blunt. If you have the family of cabinet officials and the president publicly avowing that they are not only advocates of a particular financial set of products and a particular financial set of firms, but have billion-dollar ownership stakes in those firms, even if they admit them transparently and state that this is for the good of the country, there is a fundamental conflict of interest.

**[05:41:09.34]**

This is likely to show up as pressure on the Fed, on the Board of Governors, which is really all you need to extend some penumbra of bailout to the idea that cryptocurrency companies, particularly if they hold stablecoins in another part of the same company, are going— are systemically important and will be bailed out. And that will induce the next crisis. So I've given 4 reasons in practical policy terms why it should not be just a little carve-out for the Fed. It should not be independence defined as monetary policy as narrowly as possible. But in order for the Fed to serve its mandate and to serve the American people, it needs to maintain an active role in financial supervision. And regulation. Thank you very much.

**[05:42:10.08] - Amit Seru**

Okay, uh, thank you to the organizers, uh, for asking me to be part of this panel. Uh, I think, uh, the session was pitched as, uh, independence from monetary policy versus financial regulation and supervision. I think it's not a question of versus. For me, I think it's the question of where to preserve the independence and where to strengthen accountability. I'll base my remarks, large part based on my own research and my reading of the research. And the theme that you will see that runs through my remarks is that to keep independence for monetary policy, we need credibility governance when it comes to making supervision more accountable. And let me start by first making the case for why integration has appeal. A lot of has been said earlier, but let me just quickly say so. One positive view is that you have holistic view around supervision, lender of last resort plumbing, which should stay with supervision for reasons that we have discussed quite quite often today, and monetary policy. Independence shields potentially supervision from politics and lobbying, and there is faster coordinated action during crisis, which we have also talked about. But of course, the same structure can create tension in practice.

**[05:43:51.10]**

You can have conflated monetary policy because stability actions end up potentially constraining monetary policy. I'll talk a little bit about that. And you could have reputational spillovers where supervisory lapses in actions— and that's not to say that they are being made because people want to, it's a difficult job— but whenever there are, there are reputational spillovers that affect the independent brand of monetary policy. So one has to think a little bit about about it. So my reading of the work out there is that there is some evidence that the coordinated faster action during crisis is a very important thing. Holistic view and independent from politics is maybe less certain, but there is also on the con side these two things that we have to worry about quite a bit. So That suggests that potentially there is a dent in credibility. We have seen this discussed many times, so I don't need to do it. In the previous panel, Carol did a great job summarizing the views and so on. But if you needed someone to tell you a little bit about what the perception out there is, here is a quote where investors have comprehended that on banks they make money in good times and bad.

**[05:45:14.30]**

And what people have in mind is that whenever there is a lot of stress, the support is widened at a pretty fast pace. And it's largely— we have talked about lender of last resort. Larry talked about it in the morning. But the central tenet behind it is to be able to separate insolvency from illiquidity. And if we decide that everything is a liquidity event, then lender of last resort just becomes lender of immediate resort, and then that just moves into too big to fail, which is something that we have kind of seen. What does that dynamic do? It hardens too big to fail expectations and dents the credibility, and hence comes the notion of credibility governance. Fortunately, I have spent a lot of time thinking about governance And I can give you 3 ways in which you can address this. And the 3 ways are accountability, accountability, accountability. And let me unpack this for you in the context of what I just said. So the first notion here that one needs to think carefully about, and this is something that Paul talked about during the Q&A, And that has to do with the lender of last resort, which is really a very central piece of the puzzle here.

**[05:46:39.04]**

And the lender of last resort, and not the lender of immediate resort, rests on being able to separate out insolvency from illiquidity. But this is something that we have not really clearly defined or measured. And if one doesn't do that, it becomes a slippery slope. It's pretty much like like Heisenberg's uncertainty paradox in physics, where you can either measure or locate. But this is even worse because it's a clear paradox because we don't know what it is. It's sometimes slow. It's sometimes fast. It's sometimes sudden. And if that happens, you define every event as a liquidity event. And I don't have to go too far because this is an event that we

just spoke about today, which is SVB.. And it's touted as an idiosyncratic event, but actually there were many, many others. And it was touted as a liquidity event. And as a result, what ended up happening was a lot of liquidity infusion and protection to uninsured depositors, \$9 trillion worth of those. And yet banks kept failing and they still have trouble. You might have seen Western Alliance and Zion. It's the same thing. And why do I know that this was not all liquidity event?

**[05:47:55.38]**

Because I happen to sort of look at some of the data with my colleagues, and we released a paper on March 13th, 2 days after SVB, where essentially what we tried to do was to figure out how much of turbulence there is in the system, which is another way of saying how, how many unrealized mark-to-market losses there are, low versus high, and how much spookiness is there in terms of depositors, so the flight risk is high or low. Each dot here is going to be a bank which is at the risk of running, or potential run, under plausible assumptions on what uninsured depositors might do. And there are lots of them. Uh, large dots are bigger banks, small dots are smaller banks. There is SVB— more turbulence, more flight risk.. But there are many others. And yet we call it a liquidity event, a idiosyncratic event. And when that happens, you sort of blur the credibility because what should have happened is you want to sort of figure out which ones are solvent, which ones are illiquid, and then restructure or raise capital. Not immediately, but many years after. We have been 2 years after, but we don't do it.

**[05:49:08.40]**

And that sort of sort of dense the accountability. That's one piece of the story. Why do we do this? Because a big reason for leaving the fuzziness in illiquidity versus solvency is that there is some discretion. And discretion is useful because it brings in information and it's something that we should sort of think about. But it also has costs because too much discretion means exactly reinterpreting rules. Especially if there are no guardrails, and that dents accountability as well. Again, this is not something that I'm just saying because I sort of have thought about it only in the context of SVB. We've thought about it in the broader context. And here is a very important institution which supervisors use, which is an amazing thing in the US actually, where when we supervise banks, we have these ratings called CAMELS rating for those who are not in the weeds. We take each of these categories, that's the acronym, and we rate banks on a scale of 1 to 5, and then we produce a composite score, which is a summary of each of the individual scores. And if you look at the scores given by exams and project it on each of the components, what you find is something like this.

**[05:50:30.28]**

What does this show? Well, it shows that you load as an examiner a big chunk of your composite score on management rating, which has supposedly the most amount of discretion. There's nothing wrong in this per se, because if you look at each of these individual components and try to predict the future bank health, each of them does a great job. So that means discretion has information. The question is, is too much discretion going on in the system? And if you asked a machine what the weights of this should be, taking the inputs as given, what you would find is that a system where you take these inputs and put some guardrails would do much better if predicting health was your objective. So in other words, and this is, you know, a lot of people made lawyer jokes. This is my economist joke. So it's not discretion or rules, it's discretion and rules. But again, that happens if you have some accountability that you want to sort of go after. And the last thing that I will say here is that The accountability has to come from inherently taking tough decisions when it comes to the fundamental issue.

**[05:51:37.55]**

This is something that John mentioned right, right up front in the first panel. We have a pretty highly levered system. That means small shocks lead to bad things happening to many entities. The way to sort of address it ex ante is to have a lot of equity to absorb shocks. But there is always a complaint from a big part of the lobby that a lot of equity means lower lending. How do we sort of know whether this is true or not? Well, fortunately, we have some data that we can look at it. So here is first the idea that the banking system is very levered. On the x-axis here is the size of the banks, and on the y-axis is how much leverage you have as a bank. Don't worry if you can't read. Whether the line is sloping down or sloping up, it's exactly the same number for everyone. And that's basically high leverage that banks have. So how do we know that if you take more equity, the lending goes down or doesn't go down? Well, we have a benchmark now. We have a lot of non-banks out there. Non-banks are not subsidized.

**[05:52:42.41]**

They are not backed by deposits. They have to go out and get uninsured deposits or uninsured debt, pretty much. And what does the market tell them? Well, market tells them that if you have a lot of risk, we expect you to have a lot more equity. So what is plotted here in the black line is the capital structure of non-banks providing mortgage services in this context, like the banks, and they have much more equity than banks. So is it possible to have lending go down with equity? Maybe, maybe not, but that's something that one wants to sort of think about. Out. And the idea here is that you want to think about losses to risk-takers, not taxpayers. Putting these things together, the worry that one has is that if you have all of these things together, you are ending up with too big to fail, which is mission creep. So \$9 trillion of uninsured depositors suddenly are now backed. We don't talk about it, uh, till we do. So are there spillovers that you

see where the credibility is dented? Yes, you to do. So for example, when we try to go ahead and implement Basel III, which is all about large banks and capital, but then we talk about SVB and the crisis happening and that's why we need capital— those are two different issues.

**[05:54:02.29]**

Anybody could have told you that that's not a real winning strategy, but we did it anyway. And the point is that the market doesn't think that the will exists to sort of push on. When it comes to innovation, which is a theme in— there are lots and lots of innovations happening out there. And if you look at why do banks not like innovation, well, that's not surprising. It introduces competition. It will force you to have lower profits, but potentially also to make you innovate, which is a good thing. And when banks push back against a lot of such innovation, That's not surprising. But when the Fed then decides to also take a back seat, it's hard to then say that we are independent and not influenced by many of these things. Maybe it is, maybe it's not. Maybe they came to the same answer. And the last before I conclude is this issue of conflation of monetary policy interacting with financial stability. So what I have here is on the x-axis, the policy rate. Monetary policy. And the y-axis is number of banks which are potentially at risk. This is for 3 scenarios: if you had commercial real estate distress, if you had some distress, and if you have a lot of distress.

**[05:55:17.28]**

And if you jacked up the interest rate, what do you see? Well, you get to around 4, 4.5%, and you suddenly see a lot of banks in trouble. This is around the SVB regional crisis. So does that mean that we can keep going without worrying about a lot a lot of banks going under? I don't know. It seems like it puts a constraint on how many— where we can take the monetary policy. Why did we end up in this? Going back to my first point, is illiquidity and insolvency not being really separated out? So to conclude, I said that credibility denting has happened. That's why we are having this discussion. I think there is the notion that we have a lender of immediate resort, which has come about because there is discretion. There's not enough reputation for acting tough, and it's not that hard to go back and try to get this. Accountability is one important way of doing it. If we want to preserve the informational synergies, because Fed is a very valuable institution, I think one way of doing it is to have partial separation where supervision is made accountable. So think about a financial policy committee inside the Fed separate from FOMC with clear mandates and have more sunshine on each of them, which is much more than what we do, which includes pre- and postmortems and so on.

**[05:56:43.35]**

There's lots and lots of best practices that we can get into. Thank you very much.

**[05:56:54.40] - Daniel K. Tarullo**

Okay, um, I suspected that Adam asked me to speak on this panel because of an expectation that I would give a full-throated defense of the status quo, and I'm not going to do that. Um, in the abstract, in the abstract, you could just bottle up what Adam said a few minutes ago, and I'd have a few nuance But just bottle it up, and I think the answer is clear. But with most institutional arrangements in most periods of history, the optimal arrangement is contextualized. It depends not just on how we abstract relationships in a sort of Platonic sense, but also by taking into account what the legal, political, economic, and other realities of the operation of those institutions may be. And there are very few eternal verities when it comes to institutional arrangements. Even though I suspect everyone in this room would share the view that central bank independence is important, the particular means of central bank independence or the particular modes of central bank independence almost surely vary from system to system just because parliamentary democracies are different from presidential democracies. So with that in mind, I want to explain a bit why would I— something I would have thought was an easy question 15 years ago, should the Fed retain its regulatory role, is today a more difficult question.

**[05:58:36.42]**

But even as I say that, I want to emphasize that everything Adam said is right, uh, and that just shows us what would be lost if, for either exogenous reasons or because the Fed itself decides that it's too risky to have the financial regulatory stuff, that it moves elsewhere. So let me comment a bit on some of the traditional arguments that have been raised for and against the merging of the two roles. And I should say that most of that literature I find exactly in this sort of abstracted world. Oftentimes someone comes from their own system, which is the way they're thinking about it, and then they apply it to all central banks in all arenas, which doesn't seem to me overly convincing. But what have been the principal arguments against in that literature, not all that you've heard today, but in that literature have been conflict of interest and too much power to one institution. On the second, I've got some sympathy for that. Whether it's the Fed, the Fed is a— and always has been, at least since 1951, a very powerful powerful institution. I don't totally agree with Paul's observation that it's always asking for more.

**[05:59:59.26]**

I remember in Dodd-Frank trying to push stuff away, which we didn't always succeed in doing, but it's always been a powerful institution. And every time it gets more authority, it becomes

more powerful. And if we believe that it's important for it to have political insulation, then the threat on monetary policy, then the threshold for other roles needs to be really high. So in 2009, I was not— my position was not just— or 2010, I guess it ended up— not just, well, we shouldn't fight to keep consumer financial protection. I was affirmatively for it moving elsewhere. Why? Because it had become too partisan. It was partisan. And it wasn't central to the monetary policy role of the Fed. It wasn't the fault of the staff, by the way. The staff were, I thought, quite good, but they had gotten the instructions that they had gotten. But it didn't seem to me particularly useful to hold on to, and it could have been counterproductive. I was perfectly willing to give up oversight supervision of smaller banks. Why didn't that happen? Well, some of our reserve banks sort of said, "Gee, if you do that, there's going to be nobody in the building," because these were reserve banks in districts without large banks.

**[06:01:24.38]**

But I think the determining factor was the small banks themselves, which lobbied heavily in Congress to keep the status quo, which meant they got to choose between their regulators. Did they get the Fed or did they get the FDIC? If you were a state bank. But those calculations were made in a context in which— in a different political context. With respect to the conflict of interest, I don't know. I just don't see it. I mean, I see it in abstract terms. I just don't see it in the, well, the Fed will feel they were a bad regulator, therefore they've got to bail out a bunch of banks. There's a lot of bailing out. Going on, but I don't think it's because they thought they were a bad regulator. So, what about the good reasons? The reasons for integration? Again, Professor Bordo put, I thought, his finger on it this morning. It's the lender of last resort function above all. Now, I think there are a couple of others, and Adam alluded to them, but it's the lender of last resort function above all. When you are faced with a stress period, a stress situation, whether it's with respect to one or a small group of banks or certainly the entire financial system, you need information and you need information quickly.

**[06:02:45.10]**

And the reason you, the central bank, need information is everybody's looking at you saying, "Are you going to put money into the system? Are you going to provide the liquidity?" And if you do not have an informed position on that set of questions, you're going to make mistakes. You may well do things where you wouldn't if you had had better information, just because you say, gee, if there's doubt, I better not take the risk that the financial system is going to come down. In ordinary times, you know, consulting with the OCC or something, that can probably work. It'll be clunky, but it could probably work. But not in a crisis. When I got to the Fed in January of 2009, the crisis was still raging. And I still remember the days, the multiple days that Don Cohn and I sat in the anteroom in the good old building of the Fed going through region by region the major

banks and trying to figure out where the liquidity was going in, where we were going to insist that they were raise capital, it simply couldn't have been done if it had been an interagency process. Okay, so, you know, with respect to monetary policy, I don't know.

**[06:04:04.05]**

I know the Peek and Rosengren literature. I never saw any evidence of it, to be perfectly honest. What I did see evidence of, though, was not wanting to use monetary policy to burst bubbles and thinking that if you had an alternative regulatory instrument. It was a better approach than monetary policy, so there was a bit of an intersection there. The argument about sort of monetary policy— Lev's argument— yeah, I get it, but— and I think there's something to it, but again, in 8.5 years, and I was running this process, in 8.5 years, there was a total of one time where there was any serious discussion of how the regulatory system was going to intersect with monetary policy, and that was on the enhanced supplemental leverage ratio, and that was about it. Okay, so what's changed? Why was something that looked to me like an easy answer a while ago, now it's hard? Well, a couple of things have changed. One is— and Lev alluded to this earlier— we've now got this issue, and this is Steve's central point in his presentation. We've now got this unitary executive theory, which is like a creeping effect through everything that has led the president to issue an executive order saying, in essence, the Fed's regulatory responsibilities are under my or the executive branch's control.

**[06:05:36.25]**

Well, how would that be enforced? If the head of the EPA does not do what the president wants, what's the remedy? The president removes the head of the EPA. If a Fed is subject to regulatory oversight by the president, how would the president enforce that? Presumably by removing one or more members of the Board of Governors with whose policies the president disagreed. If you allow the President to say, "I disagree with your regulatory policies, so you're now out," what has happened to monetary policy independence? If all you need is a letter saying that— and remember, this is policy, this is not for cause— if all that's necessary is to do that, I don't think there's much left to independent monetary policy. The second thing that's changed over time is just First is the political environment. Bank regulation is now intensely partisan. Not just political, it's always been political because it's choices, right? But it's intensely partisan now. When I testified on Basel II, against Basel II I should say, back in 2004, 2005, if you had taken the transcript of that, those hearings, and blacked out the, you know, it was Senator Sarbanes or Senator Shelby.

**[06:07:02.25]**

You could not have told the difference in either the questions or the responses to the answers that George Kaufman and I gave. And the fact that George Kaufman and I gave essentially the same testimony was also, I thought, somewhat indicative. That has just changed. It's every, you know, after Dodd-Frank, something just went bad. During the Dodd-Frank process. And since then, Democrats are on, by and large, on one side and Republicans on the other. And I think we can't ignore the fact that as a result, there's been some erosion of what otherwise might have been support from some members of Congress for monetary policy independence, because now when they think about the Fed, they think about, regulatory policy. Look at the transcripts of the monetary policy report semiannual hearings. How many questions does Jay Powell get on monetary policy, and how many poli— questions does he get on regulation or something else? So that's what's changed, and that's why I think it's a question to be debated, but we got to recognize there would be a lot of costs. If you could come up with something, that was intermediate, some appropriate variation on the way the Bank of England does it, or some way to keep the Fed involved informationally, that would be great.

**[06:08:25.07]**

It would require legislation, therefore one's hopes can never be particularly high. But I want to end by saying, yes, I think it's something we have to debate because of the background circumstances, but don't lose sight of how much will be lost. And crypto, several of you have mentioned crypto, it's a great example. We've got, we're gonna have, we are already having explosive growth of stablecoin issuers right now. Stablecoins can be backed by uninsured deposits at depository institutions. Who had a lot of those, by the way? I think it might have been Silicon Valley Bank. All right, so now are we gonna have a situation in which a run begins on stablecoins a stablecoin, which then leads to a run on uninsured deposits. And then what does the Fed do? No ex ante regulatory control over the stablecoin issuers. That's all at the OCC. And yet the Fed is now in this position. So I don't have answers here. I think it's a difficult problem. But I wouldn't get too enthusiastic. It was a great thing, we'll strip the Fed of its regulation. There's going to be a lot of loss if that happens. Sometimes you need to make tough choices.

**[06:10:02.52] - Carolyn A. Wilkins**

Well, thank you very much for— Thank you for the invitation. These are tough acts to follow. So what I want to do is just set up first how I think about central bank independence and also including with respect to monetary policy and regulation, and then answer the question that Joyce had at the beginning, which is, well, what could be done better on both fronts? And a lot of the elements have actually already been discussed. Discuss. So let me just start with independence. It's a pretty conventional view. Just read that. It's just— it's not a blank check.

That's kind of the most important thing. It's actually, in my view, quite constrained, but it does give you the operational freedom to use legally grounded tools to pursue a clear public mandate. And I'll talk about what I mean by that, and it'll become clearer when I talk about what I think are some of the things that can be done. You know, how important it is, I think I have a very conventional view, not surprising. I'm also on the Financial Policy Committee of the Bank of England, so I should probably also say that it's not— these are my views and not the views of the Bank of England.

**[06:11:15.01]**

But my role as a central banker over many, many years has just taught me that there are really two pillars of trust that are important. And they're not independent. One's related to monetary policy and the other is related to financial regulation. And I think that maybe the goals are a little bit different. So independence in monetary policy is a commitment device against short-termism. We've heard a lot about that. There's evidence that this actually matters. In prudential policy, I think it's a bit more nuanced. It is about having the credibility to do to take hard decisions. And not having independence with respect to the regulation and the supervision and the enforcement actions afterwards increases the chance that there's going to be a temptation to postpone a hard decision or just overlook the fact that, yeah, it might be cheaper for citizens today to do that, but the bill will actually come in terms of financial instability later. Where I think the nuances is there, and there's work to be done, is that just having operational independence doesn't buy you everything. It doesn't guard against possibility that the policymaker will make an error. And when there's an error, that really does undermine technocratic legitimacy.

**[06:12:39.41]**

It depends on competence. And so I think that's where this accountability, accountability, accountability, and guardrails around that independence is so important. I think the other thing is that this discussion that we're having about, well, you know, we can really help things out if we separate the powers of regulation and monetary policy from the Fed, that that's going to solve the problem or address the problem. I think that's naive. I'm not going to go over the reasons why I think they're better if they go together, but at the end of the day, you're still going to have questions about Fed policy decisions that are required because something went wrong on the regulatory side. And so, they're actually very related. And I think what we tend to focus on when we think about wealth is going to bias financial is going to buy us lower inflation. We forget to think about what else it buys, especially the US. And that's its exorbitant privilege when it comes to the international use of the US dollar. And that's just based on really old, boring things— confidence in the rule of law, confidence in the institutions. And so what's at stake if that comes into question?

**[06:13:59.14]**

I think is even bigger than what this conversation tends to be about. And so politicizing rate decisions or systemic risk regulation, sliding into forbearance is a real problem for the US. And I think it's a real problem today with concerns about fiscal prudence, about fiscal sustainability, because that's exactly when investors the next day are going to make the US pay pay for it. We haven't seen that today. The bill hasn't come yet. But one of my worries, one of the worries that we talk about at the Bank of England in terms of financial stability comes from not just the US, but fiscal— questions about fiscal sustainability and questions about independence of institutions that help sustain the fiscal and the real economy. So, with respect to monetary policy independence and financial regulation independence, I said they were related, but they're more like cousins. They're not twins. They differ in ways that I think are really important for how you want to define that independence, but also sustain it through accountability. And they're pretty obvious. I mean, the first one's objectives. So monetary policy objectives are pretty tight. They're less tight in the US because there's a dual mandate, inflation and full employment.

**[06:15:29.59]**

But nonetheless, one's observable and the other one can be estimated. So you can tie it to what you're trying to achieve to a short list of things, and you can ex post ideally tell whether or not the central bank did a good job. I personally prefer a single mandate, so flexible inflation targeting. Research shows that you can get pretty much the same outcomes in terms of welfare by doing that, and I think it makes it simpler from a communication and an accountability point of view. But either way, you kind of have a public contract with the community that can be verified. So prudential policy, on the other hand, pursues multiple goals. You've got firm safety and soundness, consumer protection, and the success is actually probabilistic. And nowhere is, well, nothing happened a key performance indicator. And so it's pretty tricky that way. So the time horizon is different as well. Monetary policy, yes, there are lags, but you get interim views on what's happening with inflation, you get data. With respect to prudential policy, really what can happen is that, well, a whole lot of nothing. And even if something is happening and risks are building, as we saw before the GFC, those take years and years to develop.

**[06:16:54.52]**

And so it's kind of like boiling the frog sometimes on the regulatory side when things are going wrong. There's also the perimeter with the fiscal line. I think with respect to monetary policy, the Fed funds rate's pretty straightforward and it's accepted, but the extraordinary monetary policy tools can blur into fiscal territory. And they do have— well, they do have implications for the

distribution of income. There are winners and losers in a different way than there is with just using the Fed funds rate. Prudential tools, it's even more complicated because they're more granular, they're more legalistic. And I think here independence lies in the details, the calibration of, say, capital buffers or stress test design, supervisory findings. And so this can just naturally be more political. And I think there, the accountability and the transparency is even more important.

**[06:17:58.53]**

Important.

**[06:17:58.54]**

I have a short list of ideas. Whenever you put ideas down, you think, well, it's not comprehensive. So just let me just say that up front. But I think there is something that can be done. And if we start with— because I think there are gaps. So if we start with monetary policy, the framework review that was done just this year, I think, really went in the right direction by moving away from the open-ended makeup strategies and clarifying how the balance of employment and inflation goals was being done. And the reason I think that was so important is because while I understand why before the Fed wanted to privilege the zero lower bound problem, not only did that turn out not to be robust, it made it even harder to understand ex ante and ex post what exactly the Fed was trying to achieve and over what time horizon. That's not a good feature for delegated authority in my view. More could be sharpened though. And I really like the way that Carola Bender put it in the previous panel. She said, my two recommendations are related to making sure that the measures that are being taken to achieve your objective are legitimate.

**[06:19:18.33]**

OK. And so in my mind, a gap in the Fed's communications and transparency is related to being able to link the dot plots on where interest rates— individuals think interest rates might go to the underlying forecast that they have in their heads. If what we're thinking about is you're using discretion, but you've got in your head some kind of reaction function Well, I think being transparent about that is pretty important to ex ante being able to judge whether or not the deviation from, say, a Taylor rule or something can be explained by the underlying forecast that you have in your head. I think it would give markets and Congress a clearer sense of how these reaction functions differ among members. That's one thing. I would institutionalize the governance around the non-standard tools. I wouldn't just say this about the Fed. I'd say it about many, many central banks. The net benefits over time, fiscal, economic, are not clear. There is

analysis, but it's kind of ad hoc and ex post. I think this really would help legitimize and explain how these decisions are taken. That cause— that pose risks to the Fed balance sheet. And in renewing the framework, both with respect to the tools and the objectives, it should be— there should be a bigger external element that the Fed doesn't control.

**[06:20:52.01]**

Right now, every 5 years, it looks like they're marking their own exam. Well, they're setting their own exam, and then they're grading it, which is something that Sweden were that Australia just decided that they were no longer going to do. So, how to do better on regulation and supervision? I think here the challenge is institutional clarity. So, if you concentrate powers inside a central bank, that can yield synergies. We've talked a lot about that. But what matters most is within those responsibilities that there is a clarity of the mandate there's disciplined coordination between those mandates that are shared within a central bank, and there's verified accountability. And talk about my experience at the Bank of England, I think it offers a strong benchmark. There— its power is really concentrated, but there's a separate monetary policy committee, separate financial policy committee, and a prudential regulatory authority. Each have their own statutory remits. Super important. I think there's clear links to the executive who can— they can give a steer, but it really helps in peacetimes to do the job and coordinate the job. It also helps in, in times of stress. So in the peacetime, for example, the PRA did a strong and simple exercise.

**[06:22:16.07]**

They did it to see where they could simplify regulation, reduce those costs that Joyce Chris was talking about in times where there was stress. I think the LDI example, you remember the trust budget in 2022, the actions that were taken needed to be coordinated with monetary policy because the Financial Policy Committee decided to buy bonds when the Monetary Policy Committee wanted to do QT. That structure made it seamless.. And the central bank independence and the credibility that the Bank of England had in terms of its inflation mandate made that intervention successful. So, I put that a lot down to not just the strength of the team there, but to the clear governance and the clear legislation that underpinned those decisions. So, I think the— There's other things here. I know I'm out of time, but just let me just say quickly, I think that the patchwork in the US with all the different regulators just increases costs for everyone. And if everybody's in charge, no one's in charge. And so we're thinking about taking something out of the Fed. I think stronger thinking would be, how do you rationalize that? And so coordination among the institutions— Don Cohen, I think, said this like 10 years ago— that the FSOC doesn't really have an integrated way to coordinate.

**[06:23:50.16]**

Data aren't particularly clearly shared, or information. And the individual institutions don't have the incentives to want to do that because they don't have financial stability mandates. So that's number 2. And then the last one is maybe the most obvious. If you're going to strengthen independence anywhere, it has to be where it matters the most. And I think where the forbearance risk is the highest is with respect to examiner autonomy, model validation team, stress testing design. All those things are really subject to to risk of forbearance or temptation and political kind of pressures. So I think that's where we need to do more. I liked the Fed announcement that they were going to publish their stress tests, their stress test scenarios and their models. I think that increases— yeah, increases the noise. They're going to get comments, but I think it increases credibility and transparency. Parents in a way that, uh, will reinforce their independence in the end.

**[06:25:35.08] - Joyce Chang**

Well, thank you so much, um, Adam, Caroline, Amit, and also for Dan, because I think there's a lot more that we agree on in this panel than disagree on that. The Fed does need to stay involved, but the complexity, you need external expertise and resources. It's become overly complex right now and a patchwork of different things that somehow need some type of institutional reform. And themes that we heard all through the day, do you need an inspector general or a financial policy committee or some way accountability, accountability, accountability? Accountability, that you ensure that and the institutional governance. So what I thought I would do is ask the panelists, first of all, just what their recommendation is on sort of the next step as far as, you know, is it a framework type, um, you know, analysis that needs to be done? Is it the Inspector General or the Financial Policy Committee? But also very interested in just from where they sit, what they worry about the most that perhaps is not being regulated as far as what they're watching. I do want to also ask Adam because he spoke about this at our conference, to talk about the Supreme Court, what he thinks might be at stake at the Supreme Court and just looking at the political economy of the ruling that's coming up in the Supreme Court.

**[06:27:00.31]**

Perhaps I can ask each of you for quick comments. I don't know who wants to start, or I can start. Ruby's looking pensive here. I could perhaps start maybe, Dan, with you at the end and then come this way. And then I want to open it up to the audience for questions.

**[06:27:20.54] - Daniel K. Tarullo**

So Joyce, you've given me the choice of answering any of the questions you put?

**[06:27:24.19] - Joyce Chang**

Any of them.

**[06:27:24.53] - Daniel K. Tarullo**

Yeah, any of them. So on the what to worry about, I actually, I mentioned that in my original remarks, which is that the Fed, as it always is, as the Bank of England and the ECB and every other central bank is, is going to be where everyone looks when stuff starts to go wrong. And where can stuff start to go wrong these days? I think at— I may not feel what I'm going to say in 3 years, but right now I'm fairly comfortable with banks. I'm not so comfortable with non-banks, and I'm decidedly not comfortable with stablecoins, as you could tell from what I said earlier. So, my biggest immediate fear in kind of real-world financial system terms is that stuff goes wrong there, there's been no ex ante regulation or inadequate ex ante regulation, but everybody comes to the Fed and says, okay, what are you going to do? What to do, and, you know, with or without information, it puts them in a difficult situation. On the institutional questions, Joyce, I don't know that there's an obvious first step right now, just because to think in terms— anything that anybody has said since I got here at about 11 o'clock strikes me as, you know, within the realm of things that one could debate reasonably, and maybe we should do that, maybe we should do that.

**[06:28:52.16]**

But is that the way decisions are being made now? Realistically, is that how change is being made? And I've thought it might be slightly feckless to make a proposal that has no chance of actually being taken seriously as a way to start thinking about things. So I'm going to punt on that. Amit.

**[06:29:17.05] - Amit Seru**

All right, so I'll say a couple of things. Carolyn basically said whatever I was saying much better, so I let her answer difficult questions on what should be done. But one thing I will say where she ended, if you think about designing a system where discretion and supervision and regulation is going to be put under some guardrails, that requires a little bit of a serious think Let's take the case of stress tests. When stress tests are done, the regulators, policymakers know what the model is. Outside world doesn't know what the model is. When you have discretion being applied where the same rules are being applied in whichever way, no one knows what the discretion is doing to the system. The benefit is you get different vantage points, so that's a

good thing, but the cost is you're introducing noise in the system, and the only way to figure out what that noise is doing is to track it and learn from it, and then put guardrails around where this discretion is not adding any value. And to do that, you need some sunlight and some provision around it. But it's not like stress tests, and it requires a very different way of thinking about things.

**[06:30:32.15]**

The other thing I'll say is about non-banks, stablecoins, and so on. I think As long as these are market-based entities where innovation is happening and where the risk takers internalize the costs, uh, it's not obvious that you want to be very heavy-handed about these things. It is not to say that I don't have critiques on these. I've written quite a bit about stablecoins and crypto and what the problems there are. But if we step back and you look at non-banks, and they have a lot more equity What is the worry? Well, the worry is they are being funded in some way by levered entities, which is banks, and somehow things are going to ripple back into the banking sector. So I would say if you really want to curtail this, you want to look at banks who are at those touch points where you are entering into non-banks, because that's what you control right now. That's where if you shine the sunlight, you'll see the maximum amount of turmoil. Should we be collecting data on non-banks? Yes, we do. Maybe we can do more because we want to understand what's moving out, not because it's necessarily bad, but just so that you know what's moving out and why it's moving out.

**[06:31:46.23]**

But this heavy-handedness of looking outside because we have somehow managed to do amazing job inside the banking system is, uh, not— you know, you're ignoring the evidence.

**[06:32:00.32] - Carolyn A. Wilkins**

Carolyn. Many things to worry about. There's so many things to worry about if you are on a financial policy committee that looks at financial stability. But I'm going to pick one. And I would say that the fiscal pressures, not just in the US, but in many other advanced economies, and the questions about sustainability of government debt at a time when we have intense geopolitical risk. We've got other aging populations. I could just list the fiscal pressures that are coming. This is exactly the wrong time to be questioning rule of law and institutions and independence of institutions because it just primes the system. And related to that is that you think, OK, well, there's a shock to government bond markets, and it flows through the system. And the ability of regulators to understand exactly how those risks are going to flow is limited by what Dan talked about, which is the growth of the non-bank financial institutions, not all of which is extremely

visible or known. And not only that, it's changing with other kinds of activity like stablecoins and crypto. And so that leads me to an institutional thing that I think is actually achievable.

**[06:33:16.24]**

And that isn't changing the laws about the mandates necessarily. I mean, I said I wanted that to happen. Whether it's achievable is another question. But you don't even have to go there. You could increase collaboration to be able to do these things by changing the nature of the scenarios you're looking at and the stress tests that you're doing. And maybe if there were more scenario analysis assistance stress tests that didn't lead to capital actions or didn't lead to regulation, but only led to understanding. I'm not saying you want to replace those. Those are important, but in your suite of risk management, you do that between the SEC, the CFTC, the— all together in a room and you say, okay, let's collaborate on a system-wide stress test, kind of like the Bank of England did with their system-wide exercise, voluntary, but it was about learning. How these risks can transmit, and then some of the entities that are involved actually then have their own incentives to take action. I think that would put us in a better spot than we are today.

**[06:34:24.21] - Adam S. Posen**

Thank you, Joyce. So I didn't invite Dan expecting him to— support the status quo. I expected him to be the radical to my left, and he wasn't. So I'm stuck being the radical, um, which is a pretty weird commentary on the world. Um, but anyway, joking aside, I just want to pick up where, um, Dan and Carolyn left off. I, I— no matter how boring or easy to dismiss, I think we have to take very seriously this question of stablecoins because it looks a lot— there are many things Andrew Bailey has spoken about, oneness of money. There are a bunch of things going on, but the biggest one is you've got the combination of non-bank institutions that are lightly regulated and supervised, but that will have a claim in a political sense to having bailout, especially if they're promoted politically to have more and more people get on them, get into it. And that, as Dan put it, and as Carolyn and others on the FPC know well, that you've got this mismatch in a sense, not mismatch in the traditional sense of short-long, but mismatch in the sense that these are supposed to be fully backed assets and then at the same time, the same firms are distributing things that are highly speculative.

**[06:36:03.37]**

And again, in theory, that's okay. But in practice, as we've seen repeatedly, including with the European banks in the European financial crisis, that if you have people you have institutions that are a very big part of funding the public debt, picking up on Caroline, they get untoward

sway to be bailed out generally, which relates to the institutional point. I, so again, going back to something Lev and others said, I think in addition to everything else we've talked about, I think the unitary executive approach to regulation is wrong. I think you need a more nuanced, issue-based, institution-based approach, as Lev and others have said, and that this is going to show up at the Fed. So it's not even just about Fed independence qua independence, it's that Fed independence, if you're going to— I agree with the Fed being exceptional in the sense that if you're gonna pick any agency, if you decide that there has to be only one that has meaningful autonomy, or whatever the right legal term is, from a unitary executive in the execution of its duties, I'm willing to accept the Fed should be it, but there's no reason it should only be one.

**[06:37:32.07]**

Finally, Joyce very kindly hosted me huge JPMC big event around the annual meetings. And I'm a little reluctant to talk about the Supreme Court in front of legal scholars here, but just to say, as a political economy forecaster type who's very cynical about the court, I won't cite what Paul said, although he's right. I'm betting that they're going to decide for Governor Cook, saying that she can't be fired for cause in this way, not on the merits, although the merits should, but because this is the least costly way for them to demonstrate some small amount of distance from the administration. And then they just say, okay, we gave you that, we didn't give you that, but we gave you troops in Chicago and Portland and tariff emergency authority and other slaughter, all these other things, but we ruled against you on this one. For purposes of today's discussion, what I'm emphasizing and what I would ask people to think about and worry about is that they perform some kind of legal judo, that the way they do this is they narrow even more the mandate of the Fed. They say she can't be removed for cause because the Fed is special, but the Fed is special just on moving interest rates or just on monetary aggregates or just on inflation.

**[06:39:08.00]**

And for the reasons we're discussing, that strikes me as impractical at a minimum.

**[06:39:17.22] - Joyce Chang**

Quite a few questions. I know we're short on time, but I hope— I know the prerogative. So I see like 5 hands up. I saw Paul first. I see Lev. I see John. I see every— so maybe just take them in the order.

**[06:39:30.14] - Audience**

You all are rock stars.

**[06:39:36.16]**

Yeah. OK, so I have a question about the institutional design. So before 1935, the Comptroller of Credit Controller of the Currency was on the Federal Reserve Board, supervised the Fed's examination staff, which was almost synonymous with the OCC staff, literally the same people, same filing system. And then in the Banking Act of 1935, Congress, and specifically to make monetary policy independent, they took the controller off and then they separated the OCC staff from the FDIC's exam staff. From the Fed's exam staff. So that was one piece of legislation that did that. So I, I'm wondering, do you guys think that Congress would— made the rec— correct call there, or did they make a mistake? Is it something you would've recommended or not? Okay.

**[06:40:23.41] - Joyce Chang**

So I'm going to collect 3 questions. So stay at this table here, and then I will come back to you. I haven't forgotten. So, so, uh, stablecoins.

**[06:40:31.53] - John H. Cochrane**

Um, stablecoins are a, um, a money market fund or a narrow bank, except not very well-designed one. I don't see how the Fed is going to be— if it tried to pre-commit, we will not bail them out, good luck, because after the fact everything looks systemic exactly as you pointed out. Now, you seem to say, oh, the answer is more regulation, but isn't the answer finally let's do this right? The Fed denied narrow banks, denied segregated accounts, doesn't let money market funds have payment services. Isn't this the time to say let's have good Let's allow good narrow banks rather than count that the same regulators that couldn't see SVB are going to be able to do something about stablecoins. Now, for the rest of the panel, I'd like to ask for some comparisons. This is a wonderful thing about the dispersed US system is we can compare the Fed and the rest of the alphabet soup. Amit has some wonderful work comparing the Fed and the state regulators. And if you thought the Fed is bad, look at the state regulators. It's even worse if you want less independence of the Fed. My general impression is the SEC and the— I won't even do the alphabet soup— they do a much worse job than even the Fed, suggesting that less independence is not going to be a great thing.

**[06:41:42.41]**

But your educated view on the comparison there would be very useful.

**[06:41:50.42] - Michael D. Bordo**

I just was going to weigh in on stablecoins. We had a conference at Hoover about 2 weeks ago on that, and I wrote about it and he wrote about it. But anyway, I really think this is a big source of systemic risk. I looked at US history, free banking, national banking. I looked at Canada. You can have a private banking system, but you have to have the right regulations. Okay, and I read the Genius Act and there are lots of holes in it, and I see spillover systemic risk coming in a lot of places, especially having uninsured deposits in there, and the states, the states regulating the small ones. Okay, I see a parallel with the free banking system. Some states were great, okay, but then there were a lot of states that weren't. So this is the kind of thing that I see as a really serious systemic risk.

**[06:42:48.39] - Paul Tucker**

So one quick observation and then a question. The quick observation is just going back to what Carolyn said about the Bank of England system of three committees. I think it's worth mentioning that each of the Monetary Committee, the Financial Policy Committee, and the PRA Committee are designed to have a majority of members— each has a majority of members who are not on the other committees. And I'm I like that. My question is this: in the discussion to vote alongside the others to ensure that the committees in their respective— in their— no, well, I'm talking about de facto. Well, at least while I was there, is to ensure that the committees are properly briefed and briefed in a balanced way that supports each of the members equally. Anyway, here's my question. Throughout the day, I think, and it wouldn't surprise me if Larry touched on this given that he and I discussed it in class yesterday, the regulatory supervisory role has been anchored by many people in the lender of last resort function. My question to you is whether you think that the Federal Reserve machine should talk more about the lender of last resort function, which it very rarely does these days, and also do things to ensure— to reassure, sorry, the country, Congress, the board that it is equipped equipped adequately to fulfill that function.

**[06:44:36.20]**

And I make this point for two reasons. One is I think central bank governors talk far too little about lender of last resort for the reasons everybody's emphasized. Secondly, and I don't necessarily expect any of you to engage with this, so I'd like you to do so, there have been rumors for years now— it's not rumors, chatter for years now that the Federal Federal Reserve Bank of New York is not as in a good state as it was to fulfill this function when the shit next hits the fan. And when it happens, the action is all in New York with a bit of Washington oversight. So if that chatter is true, my goodness, it makes a big difference. And one way of of putting the two points together will be to encourage the president of the New York Fed now and in the

future to talk more publicly about lender of last resort because there's a strange thing about public life. What you talk about out of doors gives you incentives to get on with your job indoors.

**[06:45:42.05] - Lev Menand**

Thank you. Love it. So I completely agree with what Adam has been saying. And to sort of underline that, I want to bring us back to something that Dan said earlier that I think is very important, which is that the proper institutional design is context dependent. Public provisioning of the electricity grid might be the optimal solution in a society where the government has high state capacity, there's high trust, there's low corruption. You might want to outsource that and put a lot of distance between the government and the electricity grid in a society where the government is corrupt, has low state capacity. And so here I'm looking at the United States and how the United States is changing.. And I'm thinking, do we want the regulation of bank balance sheets to be taken out of the only potential remaining independent agency in this system? Is this the right time to be making that reform? Even if there is some world in which it's good to have bank regulation in the executive branch, is that the response we want to have right now to how, um, the sort of state capacity is evolving in this country.

**[06:47:13.39] - Adam S. Posen**

I'm going to yield any of my time to give Joyce the last word after our other distinguished people speak. So I just— I'm exercising the chair's privilege, but in the opposite sign from what it usually goes.

**[06:47:33.37] - Daniel K. Tarullo**

Well, let's see, the issue of the OCC I think dovetails with the question of the Fed versus others. I mean, I think just thinking in practical terms, if you said all bank regulation in quotes were to go to the OCC tomorrow, you know, I think there are a lot of good examiners at the OCC. I really do. I mean, in some ways they're better at bank commercial bank examinations than the Fed as a whole is. They don't know very much about capital market activity, particularly capital market activity that commercial banks do not engage in. Yeah, they know something about repo, but they don't know a whole lot about everything else that goes on in large bank holding companies, and there is where I think there would be a loss that would not be recovered later, because that's where the Fed's involvement in the macroeconomy and having first-rate finance economists in MA and RNS matters enormously. So when I was talking about losses earlier, that's one of the losses. John, on the Fed versus others, I mean, to be a little bit sympathetic to the bank— the state bank commissioners, they know that the federal government is there.

**[06:48:54.34]**

The FDIC and the Fed put a floor under what any state bank can do, and they're subject by law, by Title 12 of the U.S. Code, to the minimum federal regulations. So if there's a role for state banking commissioners, often it's to sort of, you know, be a little bit of a business development kind of person. So, I don't really blame them, even though I admire, you know, the Massachusetts banking commissioner and others who continue to be real regulators. I just want to say, you brought this up, but I want to reaffirm something Paul said. I think it was an answer to a question about what's happened to the other agencies in the United States. You know, Humphrey, I don't think the court—I'm with Lev. I don't think the court should be deciding the structure of the United States government., and I think Congress should be. But if we're realistic about it, basically most of the rest of the government already flips like this every time there's an election. This is not the SEC of 30 years ago, where you had people of weight, in the long-time weight, Republicans and Democrats. There was 60% to 70% continuity from one SEC to another.

**[06:50:10.34]**

And yeah, there was difference in the margin, 'cause elections matter. Now, it's, you know, now we're in a mode where we basically swing like this, and the voting is just as partisan there as it is everywhere else. And so I actually, in practical terms, I'm not sure how much you lose there. Where I think you lose is the Federal Reserve, first and foremost, the Federal Election Commission, and the Merit Systems Protection Board. If those are purely politicized, then the integrity of the civil service and of our electoral process now become objects that can be changed. But SEC, FCC, and all of that, I'm more relaxed about it than I might have thought before Paul and other people started making the points that they have. Yeah, FTC. FTC. I mean, FTC, there's more continuity at the staff level, I think, for now, as there is at many of the other agencies. Not the SEC, the turnover there is unbelievable, but at the FTC and other places, I think there is continuity, but you know, Paul, it's not a first-order issue. I think it's a second-order issue.

**[06:51:20.23] - Amit Seru**

All right, I'll say a little bit about the alphabet soup and FDIC, OCC, see state regulators versus the Fed. I think, uh, if you look at the data, there is some information you get out of each of these folks. So just saying that let's go to one and then that'll solve all the problems, I don't think is the right answer. That's why you need to think a little bit about what guardrails you want to put in rather than just throwing out all discretion, because people are bringing in different vantage points, which is showing up in the ratings. How to do it is a different matter. It also helps you insulate against political capture. A lot of these local agencies, like Caroline said, have

forbearance built in them. And whether you like it or not, the federal ones are arm's length, and they technically provide you that insulation. So how you do this in the right way is TBD, but I think there is some merit to this kind of a structure, as complicated as it might be. To Paul's point about lender of last resort and talking about it, absolutely. That was one of my accountability points.

**[06:52:35.35]**

I think we don't do it. I see why it is hard, because then you have to take a stance on liquidity versus solvency, But you know, that's what lender of last resort is. Sometimes you will make mistakes, but owning up, fixing it, that's what gives you credibility rather than just hiding it. And then suddenly we find that we have a safety net which includes everything, including \$9 trillion of uninsured deposits, which we now look at and say that, oh, banks are— no one is running. Well, where will they run to? The last thing I'll say a little bit about stablecoins. Is I still am not 100% sure that Fed is the agency that needs to look at them. Yes, there needs to be regulation, but if the worry is that retail depositors are going to go to stablecoins, that's a different agency's mandate. Not everything needs to sit inside the Fed. If it's about the dollar and exorbitant privilege because they are all dollar-based, Sure, but is that Fed's job? I'm again not sure. So you will have to make the case that, yeah, these are like narrow banks, but they are not a bank.

**[06:53:48.47]**

So what is the ripple back to the banking sector if it is coming through uninsured large corporate deposits which were going inside the banks also going there, and then them getting distressed and a fire sale happening or something, then Someone has to lay out that case. But just because we have stablecoins doesn't mean Fed has to be involved. Yes, there has to be much better regulation because who knows what they're investing in? Because that's a separate— that's outside the blockchain, which no one talks about. So someone has to look at what are they investing in? That's not on blockchain. So till we do that, and I don't think that needs to be the Fed.

**[06:54:28.53] - Carolyn A. Wilkins**

Yeah, I'm going to start with stablecoins. I can get all fired up, so I'm going to try not to. Stablecoins that have different purposes are mostly right now being sold as payments instruments, mostly in the crypto world. But if they're going to migrate and become systemic, then there is a real financial stability question to be answered. And I think that the Genius Act is a really big step forward in creating clarity for that. So, and I'm hoping that Canada is going to go with some legislation at some point soon too, because it really helps the development of

these, of these instruments. At the same time, I think there's some work still to be done at a, at a, you know, Michael Bordo question. And, you know, I don't see what the aversion is to thinking about this as a narrow bank, or— because a systemic payments instrument and a narrow bank kind of come to similar kinds of safeguards. And I think the big gap and the question mark I have is why, given that, there's a case to not have the central bank or not have access to the central bank balance sheet.

**[06:55:39.44]**

And the Bank of England hasn't finalized what it's doing, but what's been said so far publicly is that systemically important stablecoins that are payment instruments would. And I think the idea that there wouldn't be some backstop if things really went wrong is just not credible. And so what that does is it gives legislators and regulators kind of the illusion of saying, well, you know what, we're not going to save them anyway, so we don't need to be too stringent with the regulation. And then ex post, what happens is they get saved. And so I don't think it's constructive ambiguity that helps. With moral hazard. And at least if it's there, A, it's safer. If you want your money-like instruments or your money instruments actually serve their purpose, that's what's going to get that virtuous circle that Secretary Treasury Bessant wants, or he talked about when he said it would reinforce the dollar's role internationally. So the second thing I would say on that is I don't think it's just about the backing assets and access to the central bank's balance sheet. I think it's also about other aspects, like uniformity, whether you can— your redemption is kind of uniform across different instruments.

**[06:56:55.49]**

They're actually not. It's not right now. Recovery resolution plans, what happens if they fail? So the legislation isn't really— clear on that at all. So, I think there's more work to do on other things. The Bank of England, yeah, it's the fact that there are differences in the membership across the committees means that me on the Financial Stability Committee, yeah, I care that monetary policy is going well, but my lens is Nariman's financial stability, which sometimes means that we think about problems differently and then we have to— you're confronted with that those challenges, and I think that's a good thing. The second thing, though, is that there's external members. And when I first joined, I thought, well, I'm a central banker, how much differently am I going to think? Well, it turns out that when you're not part of making the sausage, you haven't— you actually ask a lot more questions, and you do see things differently, and there are challenges. So, that's kind of just an addition to that that I think is a really useful useful part of the system.

**[06:57:59.43] - Joyce Chang**

Yeah. So, I'll just say a quick word on stablecoin as well, but very much following up on what Emmett and Carolyn said. So, I'm not so sure that stablecoins will grow as quickly as some of the estimates that are out there. So, if you think about it from the point of view of a wholesale bank where you need to do all of the KYC and you need to do all of the KYC on the intermediaries, You know, we use a number that is, you know, like, look, it's still a big number for where stablecoins are at, but could it grow to \$600 billion to a trillion over 3 years? Not as quickly. But I also agree that this whole issue of who gets access to the central bank is kind of the central point. And there isn't necessarily a reason. So I think there should be more work that is done on looking at tokenized deposits, on the public blockchain as the way to look at trying to get to the more institutionalized piece of looking at the benefits of stablecoin rather than just talking about stablecoin. And that is more of the approach that JP Morgan has taken in the kinds of instruments that it's looking to roll out.

**[06:59:11.07]**

I think the public doesn't understand this point very well. So I get a lot of questions, oh, well, Jamie Dimon, is he bullish on stablecoin now? Is he bullish on crypto now? And if you look at what we have been doing, we have been doing it within sort of a framework where, you know, it is working within our network of known clients. So, you know, that's just the key point I would make. But the point that, you know, Adam made is the whole issue on who gets access going to be a politicized issue. Thank you so much. I know we went way over time, but thank you so much to all of you.

**[06:59:44.05] - Adam S. Posen**

The panelists who can. So Karen Dynan is moderating the next panel, which is our BAFO big finish panel of all the senior policymaker types, or at least some of them. Uh, you can get up to grab a drink or a piece of fruit, but we're swapping the name tags thanks to our efficient meetings team, and we'll start as soon as Karen's ready.

**[07:00:35.02] - Karen Dynan**

Okay, as Adam said, we're going to roll right into this last panel. I am Karen Dynan. I am from Harvard University, but most importantly, I am a non-resident senior fellow here at the Peterson Institute. I would thank the organizers for making this the last panel because I think it's a great way to cap off a conference on central bank independence in practice by hearing from practitioners. And we have an awesome panel. All-star cast of practitioners here to be on this panel. I, if my math is right, they have a collective 44 years of experience on the FOMC. I'm not going to say, they all have long and distinguished careers. I'm not going to say much by way of

introduction, except I will talk about their roles at the Fed. So we have Charlie Evans, who's served as President of the Chicago Fed from 2007 through 2022. We have Roger Ferguson here, who served from 1997 to 2006, including 7 years as Vice Chair of the Federal Reserve Board.

**[07:01:52.05]**

I had the pleasure of working at the Fed when Roger was there, and it was always so great to be working with him.

**[07:01:59.09]**

And we have Tom Hoenig here. Who served for 20 years as President of the Federal Reserve Bank of Kansas City from 1999 to 2011.

**[07:02:09.58]**

So, what we're going to do is same as the other panels.

**[07:02:11.59]**

We're going to give each of the panelists a few minutes to open—

**[07:02:16.28]**

to offer opening remarks, and then we're going to roll into Q&A.

**[07:02:22.16]**

So, with that, our first speaker is going to be Charlie Evans.

**[07:02:30.09] - Charles L. Evans**

All right, thanks very much, Karen. It's great to be here. Policymaker experience with independence in practice. Independence in practice to me means being able to do what it takes to achieve the central bank's mandated objectives. Somebody, you know, referred to this as operational autonomy. Fine. Criticism. The members of the shadow Open Market Committee aren't here. This is my criticism, very important. Criticism is important for stress testing ideas and strategies, should be welcomed. We should have thick skins, and it's a critical guard for avoiding groupthink. Obstruction, however, is different. Now, in practice, independence is most critical during stressful or emergency situations. Is there trust with the public? Building trust,

maintaining trust, and repairing diminished trust is a 365-day-a-year job. I believe in voluntary exchange where the public likes what we're doing, as opposed to coercion where we just force our policies on them no matter what. It's gonna happen, but I'd like everybody to understand that. Powell begins every press conference with, "My colleagues and I remain squarely focused on achieving a strong economy." achieving our dual mandate goals of maximum employment and stable prices for the benefit of the American people. Elsewhere, he has said everything we do is in service to the public.

**[07:03:56.44]**

I'm a big fan of that trust to do the right thing for everyone is crucial. Also, Congress greatly understands and cares about their constituent views. I thought Patrick McHenry was terrific in getting that point across that they know very well what their constituents like don't like. He nailed that. You know, this is important episodes in Fed history. You know, Paul Volcker raised interest rates, you know, wasn't popular. Builders mailed 2x4s to the Fed with a note, "We can't use these anymore, maybe you can." Alan Greenspan, '88 to '89, raised the funds rate to 9.75% to reduce inflation. My first 30-year mortgage was 10.5%, that wasn't popular. Ben Bernanke, 2008 to '14, with Janet Yellen, maintained the target range for the funds rate 0 to a quarter percent for 7 years and did QE1, QE2, MEP, open-ended QE, no interest on CDs. My wife complained about that, you know, all the time. That's not popular. In all cases, monetary policy was focused on achieving maximum employment and price stability. 2% most recently. That's the job. Just do it. Public trust is crucial and always at risk for central banks. It's in the job description. Just ask the folks at the First and Second National Banks.

**[07:05:20.46]**

And here, I thought this was going to be my unique chart. I didn't fully appreciate Carole's great research on this, and so I don't have to explain this. You know, just to remind everybody, there are different views by partisan positions, identified political party. Why is that? Why is policy affecting people differently, or is it the way that information is received? Legitimacy is on shaky grounds. I like that comment. Given the disparate beliefs in the public and the historical unpopularity of central banks, effective and resonant communication is valuable with the public. I didn't really intend to come here and be parochial about the important role of the Federal Reserve Banks. I knew that Tom could do that very well for all of us, but— and Paul Tucker said the same thing about the Bank of England and Governor Bailey, and he should be out there more. I know that Adam gave many, many speeches. I think that's really important, more technique and rules Things that only an economist could love, well, you know, that's great for economists, but I think going out and talking is really important. Some of the themes that we've all talked about periodically, Main Street.

**[07:06:33.45]**

We're really here for Main Street, not Wall Street, not just Wall Street, that's one. Another, I didn't think this would be controversial, but I guess it's been, the Fed's goals encompass broad and inclusive employment. All income levels, education levels, all geographic locations. Urban, suburban, exurb, rural, female, male, and racial groups. I don't see why that's controversial. The ideal must be benefits for all, universal. No one is fooled by the clever rhetoric that many of us have used over many, many years. What do we say? We raise the funds rate today to ultimately ensure a strong labor market. Price stability, foundation for strong labor markets. I do believe that. That is important. What's unstated, silent, subtitle? The unemployed are soldiers in the battle against inflation, and all will be better when the troops come home after the war. That's really what that's saying. We need to explain that. One man's cacophony of viewpoints expressed by many policymakers around the country may be another person's communication with many that is really sorely needed. I'm a big fan. I thought that Neel Kashkari made some important comments earlier. Delivering on mandated goals is critical when so much pain and suffering may be inflicted on the public in the task of achieving stable prices and maximum employment.

**[07:08:01.14]**

Being able to do what it takes, that's independence in practice. We have to be— central bankers have to be able to do that, but the current environment is awash with conflicting information and worse. Understanding these information gaps is really key in addressing them, uh, in a meaningful way for everybody. Thanks very much.

**[07:08:20.23] - Karen Dynan**

Okay, we're going to hear from Roger Ferguson next.

**[07:08:33.11] - Roger W. Ferguson, Jr.**

Well, uh, Thank you very much for giving me this opportunity to speak. Let me thank Karen for moderating and obviously Alan and the team here at Peterson for inviting me. At the end of a long day, the thing that first comes to my mind is everything has been said, but not everyone has said it. So I'm actually going to take the same theme of independence, et cetera, but through a different angle, which is the importance of a Fed that operates independently during a crisis. And because we haven't talked very much about it, and I don't want to take it for granted that the ability of the Fed to do what it must during a crisis without looking to the White House or to the Treasury is incredibly important. And in some sense, it's obvious that during a crisis,

central bank acts independently. But in fact, it should not be taken for granted. That it is a separate power independent from the executive branch or the legislative branch, but acting under the rules of the legislative branch. So the obvious example in my case— some of you know, many of you do not— is 9/11. I happen to be the only governor in Washington on 9/11.

**[07:09:41.31]**

Tom was leading the Kansas City Fed incredibly well at that moment. But the reason I raise it is during the course of that day, we made a lot large number of decisions without looking to the Treasury Department or others for guidance. And we did it comfortably, recognizing that in many ways, should it come out well, Congress would review us and come back with suggestions, which they did, but with the knowledge that we didn't have to ask Masters for approval before we did things. And so the day started with, you know, a major crisis, great uncertainty. The Federal Reserve in Washington, but around the country, jumped into action almost immediately. I mean, almost immediately, because the second plane hit the second building around 9:06 or 9:07. By 9:45, half an hour, 45 minutes, an hour later, the Federal Reserve had issued its first statement. Not a big public statement, a private statement, and basically what that statement said, and was addressed to the banking industry, was that our large-dollar payment system called Fedwire, and it sounds pretty technical and arcane now, would, quote, "stay open until all transactions were settled." Such boring language. What does that mean?

**[07:11:00.42]**

What it actually meant was that the large-dollar payment system on which everything else relies for liquidity would be available. Didn't have to go down to the Treasury Department or the White House to ask for their approval. In fact, the White House had told everyone to evacuate Washington, D.C., and we chose to do something different from that. We then went through the rest of the day and decided that we as an institution, a federal institution, would stay open and operating. Tom was there, I was there, David was there, Karen was there, many were there when that decision was made. It was made against clear expectation that the federal government would shut down. We said it because, to Charlie's point and others, to Charles's point and others, we have an important obligation as part of the government, but in fact exercise somewhat independently of the rest of the government. The decision to stay open and operating was one that had to be discussed internally. Some of the presidents said no, some said yes, some said maybe, but at the end of the day we reached a very quick consensus that we would stay open and operating. During the course of the day, a number of debates came up.

**[07:12:07.08]**

The one that sticks most to my mind— well, there are two or three of them— one was, what should we do about the banks? Some people in the administration called me and said, well, perhaps we should declare a banking holiday. Fortunately, the Fed and the OCC ultimately have the authority to recommend to the president what we should do, and we made an independent decision that we would not declare clear banking holiday or not recommend that to the president. That was ultimately his authority, but it was based on the recommendations from people around him. Um, and that proved in hindsight to be the right thing. We can talk about the value of banking holidays, what we know about what happens, but one of the things that we certainly know is announcing from White House that we're going to close the banks would certainly have increased, not decreased, anxiety and uncertainty. And we know that that the ability to open banks after they are closed is also a highly risky proposition during what was clearly going to be an uncertain time. So then we also had another major question, which was one of, well, how do we deal with the dollars overseas?

**[07:13:08.41]**

And we decided, our authority, no one else's, that we would lend quite freely, frankly, to other central banks, the Bank of Canada, the Bank of England come to mind, the Bank of Japan, ECB. Through a series of swap arrangements and other things. All of this led to something that has now become a regular part of the Fed's toolkit, which was we actually, by definition, expanded the size of the balance sheet quite significantly. One of the first times that that tool was used very explicitly— you know, some of the folks in monetary affairs and others came to remind me that that would be an outcome of such a massive extension of credit. And we undertook that because it was the right thing to do. And so I tell you this story just to say the ability of a Fed to be highly confident of making decisions even when the rest of the government is very uncertain about what to do has proven to be very helpful. Not in the usual ways that we talk about, of the 2% target and keeping inflation under control. There's nothing wrong with that. That's the day-to-day operation. But imagine the highly unusual operations and think through what that means.

**[07:14:16.55]**

Now having said it, let's also be clear that at the end of the day, the Fed is an instrument of the legislative branch. We've heard I don't know how many times the Fed was created in 1913, modified seriously in 1935. But our ability to do the things that we do, including what they do— I'm no longer— I'm a friend, will always be a supporter, but no longer a member of the Fed. Is also dependent on a legislative approval that we do that. And what we've seen is, as always happens, once these acts are undertaken, then Congress has a very important chance to look back and, I would say, second-guess what was done well and what wasn't done so well. And

after 9/11, one of the things they recognized was that we have a very— had then a very vulnerable and weak payment system, particularly at the retail level. Because we were at that point, the Fed was clearing millions of pieces of paper, little pieces of paper that some of you remember well, your children and grandchildren do not. They're called checks. So the Fed was responsible then, as is for now, ultimately for clearing all the checks in the country.

**[07:15:27.31]**

They did that at that point through flying these little pieces of paper around at night through a leased fleet of airplanes, sometimes called the Fed Air Force— internally, not externally. And Congress realized, based on advice from the Fed, that we should work really hard to modernize the retail payment system. Out of that came, I think, what was then— until then, the only time the Fed had proposed legislation to Congress that was not directly related to the Fed's operations. The Federal Reserve Corporation itself, its mandate, and that was the so-called Check Clearing Act for the 21st Century. Out of that came a modernized payment system. It has led directly and indirectly to the ability to pay online, for example, and to do online banking. It modernized the use of the ATM to use images of the check as the final instrument on which you could do clearing and final settlement. We've also seen in other cases when post-crisis Congress looked and said, well, we aren't sure we like the way you have handled some of those tools. And so post-2008, Dodd-Frank, et cetera, we've had a number of changes to the way the Fed operates because of some sense that we could be better post-crisis.

**[07:16:43.03]**

So as an example, the creation of the Vice Chair for Supervision. Was a clear effort by Congress to say we need someone at the Fed who is thinking about supervision, perhaps not independently of monetary policy, but have a unique responsibility for that role because before that it was generally shared across the board with different people leading the efforts. There have also obviously been some efforts to change the way the emergency lending and lender of last resort are used. Maybe right, maybe wrong, but Congress has sort of thought through what we can do in those cases. So the reason I raise all of this is to say we're in a moment wherein, you know, some people think Fed independence is their number one priority. I understand that some have said it's not one of their top 100 priorities. Wherever you think it might be, the recognition— not sure why people laugh at that reference— the recognition that Fed independence plays a role during the normal times is important, but I've tried to bring to you at least one, if not more, cases where the ability of the Fed to make decisions independently of the rest of the government have proven to be actually critical to balancing and maintaining stability in the financial system.

**[07:17:53.02]**

So those are my opening remarks. Thank you.

**[07:18:08.04] - Thomas Hoenig**

First of all, thanks, Adam, for the invitation and Karen for the introductions. And for those who have stuck around for sticking around, let me tell you, it's been a long day, but an interesting one. I'm going to talk about Fed independence, the theory and the practice, and I'm going to raise some concerns that I think we ought to be thinking about going forward from here based on what the practices have been in the last several years. And I would tell you, let me start quickly with the theory. You know, we all know the mandate to pursue stable prices, maximum employment, and moderate long-term interest rates. That's in the legislation. And the Fed is designed, I think, to be insulated from political control or excess influence so that it can pursue the policies that achieve those goals in an independent manner. Understood. So when the economy is growing too slow or below potential, the Fed can lower the rates, stimulate the economy, and bring it back to potential. That's the easy part of independence. Then when inflation is increasing or threatening, uh, because of too rapid credit growth or, uh, related factors, the Fed should raise rates, slow the economy, and bring it back to normal.

**[07:19:29.24]**

That's That's the harder part of independence, at least I found it to be that case. And then when there's a crisis, as Roger said, a liquidity crisis, for whatever reason, the Fed provides a temporary backup facility to avoid the collapse. And then quickly, as quickly as possible, remove that stimulus so that you return to more normal policy. And return the economy to the private sector. And that's, that's the theory. The practice— and I think the practice really matters in retaining independence for the Fed— and that's where I'm concerned. Because over time, and this is my opinion, of course, an independent Fed with a wink and a nod from Congress in administration over many, over many past years, has broadened its interpretation of the mandate to include extending its role within the financial economy, taking actions in place of fiscal authorities, and becoming an essential support to underwriting the Treasury's debt issuance requirements, given Congress's actions.. And the examples of this that I think have come up and have, I think, affected the way the Fed operates and its independence include well after the great financial crisis in 2008 and after the pandemic 2020, well after the Fed continued its use of large-scale asset purchases of government and government-guaranteed debt.

**[07:21:12.46]**

So-called quantitative easing, as a standard ongoing operating tool. It was, it was well past the crisis, and it was still continuing on. Examples also include the actions that gave the government ready buyer— these actions, I mean, gave the government a ready buyer. It taught them a lesson. Ready buyer of debt, the ability to suppress interest rates, enabling the government to to spend more and keep its costs down. That didn't escape their observation. And it took away the impact of the bond vigilantes in terms of the government's spending and needing to issue that debt. The Fed also purchased during the crisis, and then still holds some of them, many of them actually, mortgage-backed securities, which supports the housing market, or at least favorable towards the housing market, which is a responsibility of Congress. In 2019 and 2020, the Fed again engaged in large-scale asset purchases to support a highly leveraged government securities market that ran into difficulty with the repo rate, and that they intervened to keep the Treasury market calm and operating smoothly and to avoid economic volatility. And it continued inserting that liquidity well after the September 19th and 20th experience. And now it provides the banking industry a standing repo facility, I understand it, for Treasury debt, substituting that for the discount window, for what I understand the reasons, so that the goal is to keep the Treasury market functioning smoothly, highly liquid, very elastic for Treasury debt.

**[07:23:06.10]**

Now, my concern is that these Fed actions have left in its wake or in their wake a less independent central bank, less accountable market, a less accountable government spending program by far. There is now, I think, a deep-seated expectation on Wall Street, at the Treasury, and I think even within the Fed, that the Fed must intervene to maintain asset values and smoothly functioning securities markets. It's part of their mandate through their interpretation and now expectations. The Fed has implicitly accepted higher inflation in assets for sure, and— consumer prices as necessary, as an acceptable trade-off to this expanded objective. We just experienced a rate reduction as inflation has, has remained above 3% or near 3%. And Congress and the Fed also have implicitly accepted a significant redistribution of wealth within the nation as it suppressed interest rates, moved asset values up. Who favors most of the asset holder. So let me just tell you some of what I think are consequences we're going to think about. Number 1, nominal GDP. This is a change between 2005 and today, 2025. Nominal GDP has increased 2.5 times from less than \$13 trillion to over \$30 trillion. The gross federal debt has increased almost 5 times, 4.8 times, from about \$7.9 trillion to about \$38 trillion.

**[07:24:46.24]**

The CPI index has almost doubled, 1.7 times. The Standard Poor's 500 Index increased 5.5 times, even more than the government debt. Hallelujah if you're in the stock market. Real weekly earnings, wage and salary, increased real now 1.2 times over that same period. I think

these actions have resulted in a compromised Fed independence and left it less able to resist Congress's spending and Treasury's need to fund the accelerating debt at low interest rates. QT is over. QE, I think, is going to come back. Soon. The throttle back— to throttle back inflation, including asset inflation, in contradiction to a stable price mandate and its other long-term mandates of employment, are now compromised. The Fed, uh, has to be thinking about this going forward. I think the Fed has to be careful because you can't insist that you own something that you've given away. You just can't. When you practice a certain way, that's the expectation. That's what I worry about. And so now we're, I think, faced with an environment of fiscal dominance. I mean, we're going to add another \$2 trillion this year, we're going to add another \$2 trillion next year and so forth, and someone has to help fund that, and it will be the Fed.

**[07:26:28.05]**

It has been and it will be. So what has to be done? Well, we've been in this position before. Now, after World War II, we had the same problem. We had a debt well over 100% of GDP. There was issues and concerns about inflation that was going on, and the Fed said, wait a minute, no more. We need another accord. Now, I know the circumstances, but it wasn't any easier then. I mean, Truman brought him into the White House, he was so mad. But it's the only thing you can do. You have to have an accord. And I don't mean you do a Volcker thing. You don't have to choke the economy off to make the point. You need to have an agreement with the Treasury, the Congress, first of all, the Congress and the Treasury. And you have to have an agreement where over a number of years, you will begin to reduce, not maintain, but seriously and significantly reduce the debt and the deficit to bring it down. We're at 7%, way, way below that. So let me, let me tell you what I mean by that. So when that accord happened in 1951, over the next 10 years, the debt fell, the debt-to-GDP ratio fell from 90% to 55%.

**[07:27:45.51]**

The deficit stayed below about 2% of GDP. Real GDP growth actually was stronger than people thought, almost 4%. Inflation was less or around 2%. So yes, I know the economy today is much different than it was in 1951. You don't have to tell me that. But the problem is the same. Isn't it? The debt is growing, the spending continues, and we need to take that into account and deal with it. And if you're going to have an independent Fed and not subservient to the Treasury, you have to have this kind of agreement. Can we get it? Well, I think it's a matter of we must get it. It will take time, explanation, but I don't think we can just stand and say, I'm worried about next quarter's employment numbers. It has to— you have to think much longer than that and begin to think in real long-term framework. So with that note, I'll stop there. Thanks, Darren.

**[07:28:55.11] - Karen Dynan**

Thanks.

**[07:28:56.37]**

Let me invite all of the panelists up to the stage. Okay, that's better. Thank you all for your remarks.

**[07:29:26.11]**

They were very interesting.

**[07:29:29.44]**

Hi. I think it's been a theme today, and you all touched on it, as Joyce said to start off the discussion for the last panel, accountability, accountability, accountability. I do want to ask you about accountability and transparency and some specific questions about communications in particular. I guess I'd like to get your thoughts on the revised framework, whether it should include, as I think about communications, communications elements that would increase transparency and accountability, what those would be, and also whether you think there is a trade-off between transparency and having a robust conversation around monetary policy. Different organizations are going in different directions. CBO, for example, is releasing— it's actually releasing the models it uses to do its calculations.

**[07:30:35.59]**

But, you know, when you, when you do that, when you do things like releasing transcripts, that just is going to make people more cautious about what they're saying.

**[07:30:45.27]**

It's going to make analysts more cautious about what they're putting in their models. Models. So any thoughts you have on that would be terrific. Who would like to— yes, Tom, would you like to start?

**[07:30:57.37] - Thomas Hoenig**

Well, you have—

**[07:30:58.05]**

you've covered a lot of topics in there.

**[07:30:59.54] - Karen Dynan**

Yeah, answer what you'd like.

**[07:31:02.46] - Thomas Hoenig**

I will start with the framework. I think the framework goes back to, I think, the almost the original in terms of the, you know, the 2% inflation target is back. I didn't really see much change other than getting rid of averages, allowing your inflation number to go up, but 2%, that's fine. I guess I don't have any problem with it. I don't think that's price stability, by the way. The mandate is price stability, and I am, I would be much happier with a price level target. That's just my preference, and then you can have margins of errors around that. And I'm not overly convinced that the lower zero bound is the end of the world as an excuse to have higher inflation. So on that, on transparency, you know, yeah, tell people what you're doing and why you're doing it. And I think that's very important going forward. I think the Fed has an enormous challenge. I mean, we are swimming in debt. And asked about— I mean, it's almost like a Saturday Night Live program here on how rich we are now that our cars cost \$100,000. I think that was one of the Saturday Night Live comments.

**[07:32:26.09]**

But the fact of the matter is we have some huge challenges going forward around this. And we need to explain that. The Fed needs to be saying we're concerned. I'm going to be honest with you. I may be wrong here, but the Fed is almost afraid of saying to the Congress and to the administration, but to Congress, we have a problem here. The country has a problem. We're swimming in debt. It's going to cost us a lot in the long run. We need to really start paying attention to that. You're making it more difficult for us to help you through this, because eventually we have to put the brakes on. And it's coming forward now because the repo rate's going up. There's more issues about the future debt that has to be issued. The foreign countries are not buying as much. We have all these issues, and yet we're not talking to the Congress about, you got to begin to deal with this problem. I'll leave it at that.

**[07:33:27.34] - Karen Dynan**

Roger.

**[07:33:31.47] - Roger W. Ferguson, Jr.**

Well, as Tom said, you left a lot of surface area to cover. So let me start with the new framework. I agree completely with Tom. I thought their efforts to do average flexible average inflation targeting over a period of time was clearly a little bit misguided. The whole thought that if we undershoot for long periods of time, we have to overshoot to make up for it didn't hold together intellectually. And I think they moved away from that pretty quickly. I do not think that that framework that they were using for a period of time resulted in policy mistakes. I think there are other things that kept them from moving earlier against the obvious inflation. But I'm glad they've moved back. You know, there was— somebody mentioned that there's no one here from the— Shadow Open Market Committee. We were out of the shadow. Oh, they're back. They're back. So 50— we had the 50th anniversary of the SOMC a little while ago. I was fortunate enough to speak about that at that point, and it was very interesting to revisit the 2% inflation target, right? It made Paul Volcker, whom we all revere, clearly thought the only inflation target that was acceptable was zero, out of doubt.

**[07:34:47.55]**

And then the academics came along and convinced us that a little bit of inflation is not a bad thing. I'm stuck in the middle because I would like to believe that we could maintain zero inflation forever, but we also know that the cost of getting there sometimes is very, very painful. And so unlike Tom, I do think that zero lower bound is a problem. I think having a little bit of flexibility about nominal wages reducing because of inflation is— real wages reduced because of inflation is a very helpful thing. But then we have to stick to the inflation target. I think the challenge that the Fed has today is, are they secretly thinking 3% is okay? Are they secretly thinking 2.5% is okay? Yeah, it's a little hard to know.

**[07:35:35.14] - Karen Dynan**

Well, so that was, that was I wanted to get at the kind of communications aspect of it.

**[07:35:42.46]**

Do we need more transparency?

**[07:35:45.19] - Roger W. Ferguson, Jr.**

So let me just go down that path. So you would remember, if you remember, that during the days of Alan Greenspan, we had two working groups on communication to try to move things a little bit forward. At least two. That's true. There are many. After you left. That's true. I chaired two, then I left because I hadn't done a good good job, they had 3 more. Great improvements were made in the region. No, but the most serious point is we've been experimenting with

greater communication since the mid-'90s. And I think they may have taken one step perhaps too far. I am less enamored of the so-called dot plots than maybe others are. Because it's not clear what it is. It's not a forecast. It's not a consensus. It's where each individual thinks interest rates should be set based on a set of assumptions about an outcome, and it's not really clear what all that is. Everyone in the room is nodding because they understand that's the ambiguity of it, but the press Anyone here from the press? Okay, I'm not blaming you because I know you don't do this. Some other people in the press who aren't here do say, and I've read this, oh, the Fed now promised, promised this year that there'd be another 2 cuts or 3 cuts.

**[07:37:19.58]**

And this was after the September— I'm just taking that as an example— dot plot that showed out of the 19 members of the committee, 9 thought there may be 3 cuts this year, 7 thought there'd be 2, and 1 thought there wouldn't be any. It was an evenly divided committee, and yet the press said, oh, a guarantee of 2. And these are smart people. And so that tells you there's a communication dilemma where the Fed is not communicating what it wants. The dot plots started with a very good idea. Let's manage expectations by talking about how we see the future possibly unfolding. And it's resulted in a place where our colleagues at the Fed are sort of hamstrung in to market expectations. And then the end result, and I give Chair Powell credit for this, they now have to— this most recent press conference, to deal with transparency, he had to start to say the debate about the December meeting was really intense. So we've gone from saying nothing about the future to saying a little bit to now the chair, whom I believe is doing an incredibly good job, is having to bring the future meeting into the current meeting, presumably with the agreement of the people in the room, I presume.

**[07:38:44.31]**

I mean, Chair Powell didn't go You know, he's a very careful— I've known him, my wife Annette Nazareth, with whom all— and I have known Chair Powell since 1981. So he's a very prudent person. I know him from being a young professional. Very prudent. He didn't go out and say the December meeting was discussed in a contentious manner without the whole committee understanding. So I would encourage him to rethink sum of this. It comes with a very good— comes out of a very good place, but since you can't predict the future and you don't want to promise the future, don't talk about the future. And so I would encourage them to rethink the dot plots. Other than that, I think, you know, most of the movements on— not to say most, all of the movements, because I say other than that— I think all the other movements on transparency, some which I wasn't so sure about, so which I was, have proven to be helpful. I think the press conference is very helpful. Obviously, the statement being released, the count of the votes, who

dissented and for what reason, all that's very, very useful. But I would encourage them to rethink the dot plots to some degree.

**[07:39:49.52]**

And I would encourage them to Tom's really good point. They've attempted very clearly to say 2% is 2% is 2%. I think they're a little bit of a dilemma how to act on that to create some confidence around it.

**[07:40:05.52] - Karen Dynan**

So that's a set of remarks to your question. Thank you. Charlie, you have a lot to react to.

**[07:40:11.11]**

Yeah. What would you like to say?

**[07:40:13.32] - Charles L. Evans**

No, thanks. Yeah, Roger, I don't know if we've had a chance to share our experiences. I'm a big fan of the dots, but I also kind of feel like when I'm, you know, turning on my TV to record the CNBC press conference and it goes, this is a live event, you want to add 30 30 minutes? We don't have 30 minutes, so I'll let that go. I think the framework came out in a fine place. I would have, you know, preferred retaining certain elements of what they had before, but I think, you know, emphasizing 2% continues to be really important. They took out focusing on removing employment shortfalls and went back to, you know, the way that they were before without saying it exactly the same way, and they acknowledge, which I thought was really important, that it's possible it's possible for the labor market to continue to be vibrant and inflation to be, you know, sensible, low, and that it depends on your inflation forecast. And that's exactly the right place to be. So I thought that was fine. I'm very sympathetic to what Tom said about, you know, advising Congress or anybody who will listen to on being more fiscally responsible.

**[07:41:23.29]**

I do remember when Ben Bernanke was testifying, and he initially made some comments about, well, you know, fiscal policy, you know, did this, it would help us a lot. And oh, they handed his head to him. That's not your job. I'm not here to tell you what to do. You don't tell me what to do. So, you know, we all kind of have our ideas of what better policy would be. We heard a little bit about that from the representative this morning. And, you know, that's just going to be the way it is. One thing, and humility plays a role in this, you know, we all, and I get this advice a lot, you

know, "Ooh, you need to be more humble about monetary policy." I actually think that I had displayed a lot of humility back in 2011 and '12 when I argued that, because markets were expecting liftoff of the funds rate and we weren't anywhere near an appropriate time to do that, I was arguing repeatedly at FOMC meetings in favor of thresholds. That, you know, we should just say we're not going to raise the funds rate, you know, until at least the funds— the unemployment rate goes below 7.

**[07:42:21.32]**

We ended up choosing 6.5. Although, I could be wrong, and I said this in every speech, I could be wrong. And if inflation were to go up, you know, to 2.5 or 3, all bets are off, and, you know, you would get out of that. I think humility is something that— it's a double-edged sword. It's an easy thing to sort of say, "Oh, you need more humility." You know, I always know that somebody's being really tough on me, almost unfair. And I think, you know, when we, you know, talk about I'd like to do less QE, I don't want to do that at the lower bound. Maybe in 2020, a choice could have been made, let's clean up, you know, the March-April markets with repos, find a reasonable place for reserves, and then stop that. Could have been a choice. Unemployment was still extraordinarily high, inflation was extraordinarily low, and I think displaying humility would have been admitting this might not work out and we have to come back and do something. And the question is, are you willing to pivot more aggressively because you chose that tact? I think that's an important further debate that always needs to take place.

**[07:43:28.31] - Karen Dynan**

Thank you. There could be lots more discussion that we would have, but the organizers tells me that we are way into overtime, and so I have to cut—

**[07:43:38.49]**

Not our session. Our session is like—

**[07:43:41.25]**

I have to cut the discussion short here. But let me—

**[07:43:47.46] - Thomas Hoenig**

please join me. Are we saved by the bell?

**[07:43:50.19] - Karen Dynan**

You are saved by the bell.

**[07:43:53.07]**

With that, I'm going to turn things over to Adam and John to close things out for the conference.

**[07:43:58.19] - Adam S. Posen**

Well, John already left. No, uh, thank you to our four very distinguished closing panelists. Thank you to everyone who participated today, particularly the many speakers and contributors who braved travel problems to be here with us in person and truly engage. We're grateful to all of you. This will not be wasted. Transcripts and write-ups will follow shortly in the next week or two, and we will get out a document with everyone's views on this critical set of issues. I'm proud of the fact that we had a huge variety of people from different parties, but also no parties, younger academics, older folks of my generation, former policymakers, foreign policymakers, and that allowed us to make the contribution I hope we did to the public debate. As we said from the start, the goal was to better inform the courts, the Congress, people who care about why central bank independence is not a simple matter and not to be dismissed lightly and to build potentially a political coalition for its support on a reasonable nuanced basis. Uh, with that, let me finally thank the outstanding meetings team at the Peterson Institute that makes these things work incredibly well, and thank David Wilcox and John Cochran for their leadership in putting together this group of speakers topics.

**[07:45:48.16]**

Thank you all very much.