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How to Hold the Federal Reserve Accountable to the Public Interest

Proposals for a
More Democratic
Fed from
Roosevelt's Good
Life Residents

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Good Life
RESIDENTS

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Holding the Federal Reserve Accountable to the Public Interest

The Federal Reserve, created by Congress in 1913 to strengthen the stability of the American banking system and charged in 1977 with a dual mandate of price stability and maximum employment, shapes how people experience the economy. As we learned in the Great Recession, for too long, the Federal Open Market Committee (FOMC) aligned itself more with the interests of large financial institutions than with everyday Americans. Yet in making monetary policy decisions, the FOMC can put a home loan within reach, make savings go farther, and tighten the labor market, giving workers more power to negotiate with employers.

The Fed, and central banks more generally, are most effective at monetary policy when they are least subject to short-term political influence; so goes a hard-won consensus among economists. This creates a lot of tension in a democratic society: Democratic governments derive their legitimacy from citizen approval, yet they assign power over key drivers of affordability and job creation for ordinary citizens to central banks that are explicitly charged with acting independently of politics.

Beyond its core monetary policymaking, where research shows central bank independence from short-term political influence delivers lower inflation, the Fed has taken on a growing number of functional and regulatory roles in the modern financial system. In these cases, the distance from political accountability that comes with independence has too often made the Fed less effective at delivering an economy that serves all Americans.

Our hope is this collection is the beginning of a more ambitious discussion of reforms to the Federal Reserve system that will deliver not only more accountability to the public and more democratic outcomes but a stronger economy for everyday Americans. This series lays out ideas that must inform a core set of democratic updates to the 21st-century Federal Reserve system's monetary policy setting authorities, if it's to perform its core macroeconomic role. These are a baseline set of needed reforms, not the full menu of reforms we need if we are to address the ways in which the Fed's broader responsibilities are failing to serve the American people.

The Importance of Central Bank Communications

In an unprecedented time of political attacks on [independent government institutions](#) in general and [Federal Reserve](#) officials in particular, maintaining the central bank's independent monetary policy-setting authority from political and financial influence has never been more important. But the Fed can and must also be accountable to the



public—particularly by transparently communicating the policy work it does to maintain macroeconomic stability and strive for full employment.

Over the nearly 50 years of the modern Fed, its transparency and communication styles have varied but trended toward more openness. Former Fed chair Alan Greenspan released the FOMC's first public policy statement in 1994. Former chair Ben Bernanke introduced regular press conferences explaining FOMC decisions in 2011, followed by the expanded Summary of Economic Projections, including the dot plot—a public chart that records each Fed official's projection for the key short-term interest rate—as a form of “aggressive forward guidance” in 2012.

The Fed's Current Move Away from Communication

Fed Chair Kevin Warsh, appointed and confirmed this year, has signaled a preference for a more “[quiet Fed](#),” shying away from forward guidance and suggesting fewer public-facing moments may be on the horizon. Warsh has [conspicuously refused](#) to submit his own forecast for the Summary Statement of Economic Projections (the existing channel for FOMC members to anonymously forecast economic conditions monetary policymakers anticipate), [argued repeatedly](#) against forward guidance, [shortened](#) the FOMC post-meeting statement, and called post-FOMC press conferences into [question](#).

This shift toward less communication would benefit financial markets and Wall Street investors more than Main Street businesses and workers. As Rep. Rashida Tlaib (D-MI) [put it](#), a quieter Fed could be one “only heard by the well-connected.”

Reforms to Ensure Public Accountability

Acknowledging that monetary policy decisions affect everyone and their ability to access the financing, savings, and market-based retirement that make up a good life, the essays in this series explore how a Fed that maintains its independence in setting monetary policy can nonetheless be more accountable to the public interest.

Accountability to the public is key to both the Fed's effectiveness and its legitimacy. Central banks will always have a constituency in financial markets, but during today's widespread skepticism toward institutions and deteriorating public trust, communicating mainly with Wall Street will not substitute for accountability to Congress and the people it represents.



It's clear that Congress has ceded ground on Fed oversight, and that the Fed must be a higher priority for legislators to deliver on key economic issues for everyday Americans: Warsh breezed through his confirmation hearing [without answering](#) a single question about how the Fed should respond to a recession.

To ensure the Fed's independent monetary policy-setting authorities remain politically viable, Congress must reassert its responsibility to hold the Federal Reserve accountable to both wings of its dual mandate and to the American people. This will require investing in the expertise and capacity needed to better understand monetary and macroeconomic policy, which more frequent interactions and public communication may incentivize members of Congress to do.

1. [Make monetary policy legible to the public.](#) Ethan Struby argues for greater transparency, even beyond the pre-Warsh standard. Requiring FOMC members to explain and justify their economic forecasts could incentivize accuracy and clarify how FOMC members view the economy, how they understand monetary policy transmission, and why they think the current interest rate target is the right one. That information, then, could inform legislators and help lawmakers ask the right questions to make the Fed more accountable—provided that Congress invests in its own monetary policy expertise.
2. [Establish inflation goals in consultation with Congress.](#) Erin Lockwood argues that the Fed's 2 percent inflation target, commonly accepted as conventional wisdom, should be held under greater public scrutiny. An arbitrary inflation target—one established by the Fed alone—is inherently undemocratic, and the choice of target has real economic consequences for the broader public, especially if it's not appropriate for current economic conditions. Accountability for inflation targeting must go beyond one-directional Fed communications—the public must also be able to influence the Fed, and should do so through Congress.
3. [Bring the Fed out of the shadows.](#) Christian Flores examines how the Fed's traditional tendency toward secrecy hurts the public's trust in institutions and makes for a less stable economy. Preventing market volatility and maintaining democratic legitimacy go hand in hand, and come from consistent, public clarity about the Fed's decisions. Over the 21st century, the Fed has voluntarily become incrementally more transparent, but with the new Fed Chair suggesting reversals are on the table, Congress can establish a floor on Fed transparency to secure the macroeconomic gains that have resulted from a more open Fed.

A More Democratic, Accountable Fed

These essays suggest concrete first steps to better align the decisions of a democratic institution charged with maintaining a stable economy and full employment with the



interests of the people living with the resulting economic conditions. These are neither a sufficient nor exclusive set of reforms for making the Fed more democratic, more progressive, and more effective.

The Fed should set monetary policy independently and free of outsized influence from both political pressure *and* the corrupting influence of financial markets, and of financial institutions specifically. But that should not put it beyond democratic accountability.

Congress, not the executive branch, authorizes the Fed and is charged with its oversight. Next year will mark half a century since Congress last revised the Fed's monetary policy mandate. This essay series is focused on a small portion of the reforms that should be part of a long-overdue update of the Fed's authorizing legislation to deal with its growing role in the 21st-century economy and financial system. Congress must proactively work with the Fed to ensure the interests of the public, not just those of Wall Street, are represented. A more transparent, more accountable Federal Reserve is not a less independent institution—it is one that can weather shifts in public opinion and preserve its authority and ability to set prudent macroeconomic policy.



Monetary Policymakers Need to Show Their Work— and Congress Should Help

by Ethan Struby

The reduction in communication under Fed Chair Kevin Warsh has demonstrated that the FOMC's march toward transparency since Alan Greenspan was neither inevitable nor irreversible. So far, Kevin Warsh's Fed seems to treat obscurity as a virtue.

This backsliding illustrates the need to reevaluate and codify both the Fed's operating procedures and Congress's role in monetary policy. To protect operationally independent and economically sound monetary policy, central bankers should publicly communicate their forecasts and how they will achieve their mandate. **Rather than treating monetary policy as an esoteric ritual of the temple priesthood, Congress and the Fed should work to make monetary policy decisions legible.**

The Fed should provide *more* information to the public, not less. In particular, the Summary of Economic Projections (SEP) should be expanded, mandatory, and have names attached. These releases should be structured to make it easy to assess forecast assumptions and sources of error after the fact. In addition to providing information about where the economy is headed, the frequent release of information would facilitate Congress's, and ultimately the public's, assessment of whether monetary policymakers are fulfilling their mandate. At the same time, Congress should reinvest in its capacity to understand and evaluate the Federal Reserve's macroeconomic decisions. This could make the semiannual Monetary Policy Report hearings genuinely productive and informative.

Some FOMC members will bristle at the costs of generating public-facing forecasts. Indeed, [Warsh has argued](#) that public predictions are apt to become calcified. It's not obvious whether this is because they are public or merely because this is a feature of the forecasting process. But the benefits of transparency—incentivizing accurate forecasts, providing democratic oversight, and informing the public—outweigh the costs. Given Fed officials' indirect accountability to the public, they should provide more transparency into their views and policy motives, not less.

The Recent Move *Against* Transparency Is Ill-Conceived

FOMC members are entrusted with profound authority. Accordingly, the bar for what they keep secret should be high; ordinary people deserve to understand what public officials are doing and why. That principle aside, public opacity generates real costs. Monetary policy will never be boring for financial markets, so providing vague information forces market participants to expend unproductive effort psychoanalyzing officials and [parsing hints](#). Unnecessary secrecy makes it [difficult to trust](#) that Fed officials are truly keeping everyone in the dark. And while financial volatility may be



exciting for market watchers, it increases the costs of productive investment by raising risk premiums. A salutary benefit of the more systematic policy of the past few decades is that [monetary policy shocks](#) are harder to find—surprises from the Fed have not been a source of business cycle fluctuations.

Warsh has argued that he prefers a quieter Fed so that markets can react to data—as if holding still will make financial markets forget the central bank is reacting as well. But Fed officials’ words and actions matter for financial markets; economists may debate magnitudes or the precise channels, but the link between monetary policy expectations and interest rates is clear. Markets will inevitably form beliefs about the Fed’s expectations and future actions. The question is how much trading will be driven by speculation about the Fed’s motives versus fundamentals. Clear information can help households, firms, and financial market participants focus on other aspects of their economic environment.

Obscurity also risks the Fed’s credibility and public confidence. Although President Donald Trump’s attempts to lean on the Fed are particularly unsubtle and egregious, he is [not the first](#) (nor will he be [the last](#)) president to attempt to influence monetary policymakers’ decisions. A lack of clarity about what central bankers think and why they act raises questions about whether Fed officials are making policy based on political considerations, rather than a sober assessment of the data. If the public wonders whether Fed officials are “wishcasting” or playing politics, inflation expectations are more likely to disanchor and create higher inflation and unemployment over the long run. The Fed’s best defense of its credibility is making monetary policy systematic; policy will not be boring, but it will be obvious. If the Fed follows its mandate and explains its choices, the public will have greater confidence in its actions.

Greater Transparency, Rather Than a Return to the Pre-Warsh Standard

The dramatic [shift in communication strategy](#) under the Warsh Fed highlights the chair’s power to shift substantive aspects of policy, even if only through a single vote at the FOMC. But monetary independence does not eliminate the responsibility to explain. The Fed should commit to—or, if necessary, Congress should compel—more frequent, useful, and structured communication about its outlook and plan to achieve both price stability and full employment.

A Not-So-Radical Approach to Forecast Disclosure

Currently, the SEP is (apparently) optional, and individual forecasts are anonymized for several years. But the Fed should adopt (or Congress should require) a practice of releasing individuals’ deanonymized forecasts more frequently—perhaps with the



minutes of FOMC meetings. Individual FOMC members should be expected to identify and explain their modal forecast.

Public forecast disclosure creates a reputational incentive to be accurate. It clarifies how FOMC members view the economy, how they understand monetary policy transmission, and why they think the current interest rate target is the right one. If a member of the FOMC makes predictions systematically at odds with realized outcomes, the public, Congress, and regional bank board members should know that. They should also be able to tell whether forecast errors stem from unanticipated shocks, errors in strategy, or a mistaken model of the economy.

Systematizing the release of forecasts aids external evaluation (and perhaps forces officials to confront the internal consistency of their model of the macroeconomy). The SEP, by providing a limited set of anonymous point forecasts and remaining optional (for the chair, at least) provides much more limited accountability. Keeping forecasts private short-circuits the [feedback mechanism](#) of confronting one's errors and learning from them. That self-examination is difficult and runs afoul of the human tendency toward confirmation bias, but FOMC members owe it to the public. Timely disclosure makes wishful thinking (or saying what you think the White House wants to hear) more reputationally costly, better aligning members' incentives with the public interest.

In addition to providing more complete information, mandatory disclosure avoids the problem of “[man-bites-dog](#)” signaling—where the decision to disclose the forecast becomes a source of news in itself. And it ensures that dissenting views are fairly represented and the reasoning for dissent is clear.

Admittedly, not every FOMC member is an experienced forecaster. Some may be uncomfortable translating intuition, qualitative intelligence, and quantitative data into a numerical forecast. At the same time, the Federal Reserve System employs some of the world's best macroeconomists to prepare forecasts before each FOMC meeting. Even those policymakers who are not econometric experts work with their staff to clarify their views and translate them into numeric predictions before making an ultimately quantitative decision: What is the appropriate interest rate? While Chair Warsh is correct that economics is not physics or math, it turns out that math does help.

Transparency Is a Risk, but So Is Secrecy

Some may oppose forecast disclosure as a form of forward guidance that increases the “[odds of being wrong at turns](#).” An incorrect public forecast may be a source of embarrassment for policymakers, but helping public officials avoid embarrassment isn't part of the dual mandate.



The chair could cultivate a culture of rational expectations on the FOMC, and Congress could clarify that forecast errors alone are not cause for removal. The clarification of forecast priors by officials may make certain FOMC members less persuadable in the meeting, but this must be weighed against the countervailing benefits of public accountability.

The Trump administration's threats to operational independence have damaged the presumption of good faith. Transparency involves costs, but it is a necessary step to reassure the public that electoral considerations do not drive policy. Structured, public disclosure of forecasts is better than a system where candor is selectively offered.

If individualized, public forecast release is a bridge too far, alternative options could provide useful information and a degree of accountability. For instance, the Federal Reserve Board of Governors staff could release their “Tealbook” forecasts alongside the meeting statement or minutes, and FOMC members could release individual statements explaining where and why their views differ from the staff’s. While this would make it harder to assess the sources of individual forecast error, it would help identify the consensus view, ensure dissenting voices are represented, and force monetary policymakers to put some skin in the game.

Congress Also Has Work to Do

The Constitution vests Congress with the responsibility for regulating money’s value. But anyone who has watched confirmation hearings for members of the Fed Board of Governors or the chair’s testimony can attest that many congresspeople appear to have a tenuous grasp of [monetary policy](#) and macroeconomics in general. At best, some members ask sharp questions about regulatory mandates and banking.

Americans deserved to know Kevin Warsh’s substantive views on macroeconomics before he got the job. His confirmation hearing [didn’t cover basics](#) like how he would deal with a recession, much less why he was so [unusually pessimistic](#) about the economy’s capacity in his previous stint on the Board of Governors or whether he had revised his thinking in light of his forecast errors.

The Federal Reserve is held accountable only indirectly through its semiannual reports and during the confirmation of its Board of Governors. While legislators have wisely granted the FOMC operational independence, that does not mean they should not be proactive in communicating their concerns. The Fed’s legitimacy is enhanced if Congress is its partner, providing oversight and eliciting plain-language explanations of how monetary policy supports the dual mandate. But congressional oversight only works if members can call on macroeconomic knowledge to understand monetary policy.



Congress should invest in its own capacity to assess and report on monetary policy—including establishing nonpartisan career positions with pay competitive with Fed staff. The relevant House and Senate committees should release their own assessments of whether the monetary policy stance is appropriate to satisfy Congress’s dual mandate. These reports should accompany the chair’s semiannual Monetary Policy Report and help congresspeople identify productive questions and develop other legislation. Additionally, it may be useful to increase the frequency of committee briefings or testimony, both for Fed accountability and, as argued elsewhere in this series, to sharpen Congress’s focus on a strong macroeconomy. Of course, monetary policy is only part of the overall picture. Changes in interest rates cannot substitute for sensible regulations, enforcement of rules against predatory practices and wage theft, or investments in government capacity in other areas.

Congress could also do more to protect its monetary policy prerogatives, ensure operational independence, and support the execution of monetary policy. It should clarify guidelines for removing Fed officials and rebuff malicious investigations. Congress should also recognize that operational independence requires avoiding the temptation to insert itself in the management of Fed research activities. The Federal Reserve System benefits enormously from being a destination for the world’s best macroeconomists, and intellectual freedom is one reason it has been able to attract high-quality staff. In the same way that the Fed should be researching “nonmonetary” topics like AI, it [should be given latitude](#) to study topics like [climate change](#) and racial inequality.

Accountability Is a Two-Way Street

In his 2014 [review of the Bank of England](#), Kevin Warsh wrote:

The Bank’s institutional authority . . . is a function of its hard-earned credibility—credibility to make the best decisions possible, to explain the prevailing and dissenting views in a manner that affirms its legitimacy, to be accountable for its judgments, and to convey economic lessons learned to future generations of policymakers.

The same is true for the Federal Reserve. Credibility is hard-earned, and while policy errors can damage it, so can concealing motives or mistakes. Experience makes clear that operational independence generally achieves better macroeconomic outcomes, so we must ask how elected and appointed officials can maintain that independence while also facilitating broad-based participation in economic and civic life.

Monetary policymakers must reject the atavistic tendency toward secrecy. They should explain their views on how the economy works, the state of the economy, and the appropriate policy stance. They should do so clearly, providing enough information for outsiders to probe their assumptions and, when inevitable errors occur, identify the



source. Without knowing what policymakers believe, it is hard to hold them accountable. Accountability may be uncomfortable, but it should be the cost of being a public official imbued with incredible responsibility.

Accountability is a two-way street, and Congress needs to step up. Members should invest in the human capital necessary to meaningfully engage with the chair's testimony. Regular congressional assessments of monetary policy performance would be one way to strengthen substantive dialogue between Congress and the Fed and (re)establish that monetary policy is a creature of Congress, not the White House.



The Fed's Arbitrary 2 Percent Inflation Target and a More Accountable Monetary Policy

by Erin Lockwood

At the end of his tenure as Fed chair in 2013, [Ben Bernanke spoke](#) at the commemoration of the Federal Reserve's centennial. "We must continue to emphasize two other essential values—transparency and accountability," he said, reflecting on the central bank's evolving role. "Ultimately, the legitimacy of our policies rests on the understanding and support of the broader American public, whose interests we are working to serve."

Why does democratic accountability at the famously independent Fed matter, and what might that accountability look like today? We can begin to answer this question by interrogating a central orthodoxy of US monetary policy: the Fed's 2 percent inflation target.

Since the 1977 Federal Reserve Reform Act, the Fed has been statutorily required to pursue price stability and full employment, but that mandate has no legally binding quantitative inflation target. While a later law, the [Humphrey-Hawkins Act](#), set numerical goals for the following decade, it left Congress empowered to revise them over time. However, the Fed itself, not Congress, has charted the path to the now-conventional 2 percent target.

Both inflation targeting as a monetary policy approach to price and labor market goals, and the 2 percent target in particular, should face greater public scrutiny. To help ensure democratic accountability, and ultimately monetary policy decisions that align with the public interest, Congress should claim a greater and more proactive role in overseeing the Fed's approach to inflation targeting. After all, as Bernanke [told his successor](#) Janet Yellen in 2013, "Congress is our boss."

The Evolution of Inflation Targeting Without Congress

Given the ubiquity of inflation targeting among the world's central banks over the past 25 years, it's tempting to think that both the practice and the well-known 2 percent number rest on solid foundations. One might also assume that the Fed's 2 percent inflation target is a statutory requirement, or, at the very least, derived from macroeconomic modeling. In reality, it is neither.

While the Fed's price stability mandate dates back to 1978, inflation targeting is more recent. In the Greenspan era (1987–2006), the Fed internally and privately adopted a 2 percent target, but it was not until 2012 that the Federal Open Market Committee (FOMC) [officially and explicitly](#) adopted the target under Bernanke, who was committed



to clearly communicating that target. But the Fed was markedly more reserved about justifying its choice of 2 percent, specifying only that the FOMC judged it to be “most consistent over the longer run with the Federal Reserve's statutory mandate.”

Where did the 2 percent number come from? Far from resulting from robust congressional (or academic) debate about how best to balance the public's interest in price stability with competing macroeconomic goals, the initial selection of the 2 percent figure was essentially arbitrary, with its origins in the [Reserve Bank of New Zealand](#)'s early experiments with inflation targeting in the late 1980s. The Reserve Bank of New Zealand arrived at the figure unsystematically, anchored on an off-hand remark by the then-finance minister. Other major central banks eager to embrace inflation-targeting converged on 2 percent as a target, with the central banks of Canada and England—and later the Fed and European Central Bank—joining suit. As this approach has become normalized and institutionalized, the perceived credibility costs of switching away from it have supplanted accountability and narrowed the potential monetary policy reforms.

An arbitrary inflation target is inherently undemocratic, and the choice of target has real stakes for the broader public. Selected without public debate or input, and subject only to the internal deliberations of a small group institutionally separated from representative government, the 2 percent target has grown ever more insulated from public challenge, critique, or change.

But inflation targeting as a policy—and maintaining a 2 percent target specifically—has consequences that directly affect the public. While Fed Chair Warsh has repeatedly [insisted](#) there is no inherent trade-off between the Fed's two goals of full employment and price stability, arguing that managing inflation is good for workers, the two goals [do stand in tension](#): Higher levels of employment are generally inflationary, though the relationship is [complicated](#). At least in the short run, a myopic focus on inflation targeting may come at the cost of workers. Fed policy actions to achieve 2 percent inflation can have uneven distributional impacts as they are transmitted throughout the broader economy, directly affecting the cost of credit. These trade-offs argue against purely technocratic policy changes sequestered from popular input.

Alternatives Are Possible, but Central Bankers Are Conservative

Strictly hewing to a 2 percent target has real costs, which justify its reevaluation. As former Fed Vice Chair [Alan Blinder reflected](#) in his 2017 remarks at the Bank for International Settlements' annual conference, “Suppose we had had better foresight back then, and accurately foresaw a world with lower real rates and recessions far



deeper than the Great Moderation experience had led us to expect . . . Would the consensus still have settled on 2 percent measured inflation? Maybe not.”

Economists like Olivier Blanchard [have argued](#) since at least 2010 that a higher inflation target would provide the Fed with more room to cut rates during economic crises without hitting the zero bound of interest rates. A decade later, the Powell Fed’s COVID-era embrace of a “[flexible average targeting](#)” framework amounted to an awkward acknowledgement that a strict 2 percent target during times of economic distress was inappropriate. But even amid this inflation-targeting framework change, the 2 percent number was treated as sacrosanct, demonstrating the challenges of deviating from that target once set.

Even without taking a strong position on whether and under which circumstances inflation rates should be higher than 2 percent, policymakers have made compelling arguments both for and against strict inflation targeting more generally—including among members of Warsh’s own [recently convened task force](#) on inflation.

Related questions like how we [choose to measure](#) inflation, what is included and [excluded](#), and how we calculate the potential [impacts of AI investment](#) on price levels and the [expected short-term interest rate](#) remain contested issues, each with significant consequences for American consumers, borrowers, and investors. Just because these questions are often technical does not mean they are apolitical.

As Roosevelt Chief Economist Joseph Stiglitz said in his [1997 Tinbergen lecture](#), “The fact that monetary policy involves trade-offs . . . has one clear implication in a democratic society. The way those decisions are made should be representative of the values of those that comprise society.”

Ultimately, the Fed should be accountable to the people most impacted by its decisions. Anyone who earns a wage, owns a credit card, or needs a loan is affected by how the Fed manages inflation and what it deems an acceptable level of inflation for the economy.

A Path Back to Accountability

While transparency is important, accountability for inflation targeting goes beyond one-directional Fed communications—the public must also be able to influence the Fed. In practice, this means a greater role for Congress, not just to set inflation targets, but to take action on fiscal, housing, regulatory, and energy policy when the Fed’s conventional tools fail to bring down inflation.

Specifically, Congress should require annual justifications from the FOMC of their choice of inflation target, in writing, ahead of congressional questioning and debate. This would have two immediate benefits: It would incentivize Congress to develop more



expertise on monetary policy, and empower it to ask better-informed and tougher questions during the Fed chair's semiannual appearances before Congress—in line with recommendations elsewhere in this collection. As [Binder and Spindel](#) (237) note, “There is [currently] little payoff for electorally minded lawmakers to spend time or resources examining the Fed’s performance.”

More frequent hearings on the topic of the Fed’s inflation target would allow members of Congress to publicly demonstrate to their constituents (and party leadership) their commitment to holding the Fed accountable—and it would make failures to do so more visible. It would also incentivize the Fed to explicitly justify its choice of inflation target, something it has seldom done, even in its initial public announcement of the 2 percent target in 2012. When the Fed consistently fails to meet its inflation target—or when Congress determines that the Fed’s inflation target is no longer serving the public interest—Congress should be proactive about using its legislative authority to influence the Fed’s inflation-targeting strategy, and to embrace a wider range of policies to bring down inflation that remains resistant to costly interest rate hikes.

The idea of Congress imposing greater accountability and transparency on the Fed is not new. In the 1970s, Congress required the Fed to hold semiannual hearings about Board and FOMC monetary policy to adhere to the dual mandate of price stability and full employment. In 2000, Congress required the Fed to provide members with written reports and to provide greater public access to information on its website. However, in charting the history of the relationship between Congress and the Fed, [Binder and Spindel](#) find that congressional attention to the Fed is almost exclusively reactionary: Congress takes action to reform the Fed only after crises happen.

Making Fed policy more systemically accountable demands a more proactive Congress: one that does not wait until the depths of stagflation to consider imposing greater accountability on the Fed. Binder and Spindel argue that this reactive relationship has served the interests of both members of Congress and the Fed. The Fed offers lawmakers eager to escape blame for economic downturns the political cover of a villain, and Congress shields the Fed from both greater accountability and, generally, from the kinds of intervention that might jeopardize its credibility. But while a generally quiescent and sporadically reactive Congress may benefit lawmakers’ electoral calculations and the Fed’s desire to avoid messy public confrontations, this current state of affairs emphatically does not serve the interests of the public.

There is, to be sure, no ironclad guarantee that a Congress more proactively involved in inflation targeting would serve the public’s interests either. Annually revisiting the Fed’s inflation target would come at a cost, potentially to the Fed’s credibility. After commenting on the inappropriateness of the Fed’s 2 percent target to the Great Recession era, Alan Blinder [went on to say](#), in 2018, “Central banks have since . . . staked a great deal of their credibility on the 2 percent inflation target—and especially on its



role as the nominal anchor for inflation expectations. To pull up the anchor now could risk a severe loss of credibility—raising questions, for example, about when the target might be changed again.”

This is a valid concern. Frequent, arbitrary, and unpredictable revisions to the Fed’s inflation target would indeed jeopardize the monetary credibility on which price stability rests. However, myopic adherence to a target the Fed cannot meet except at great cost and with unusual luck, or to one that does not afford the Fed adequate room to respond to recurrent economic crises, also undermines the Fed’s credibility. That credibility should not be assumed. Among the public, the Fed is [already perceived](#) as a political actor.

Mandatory public justifications for selecting monetary targets, with the possibility of greater congressional action if these targets are found wanting, would provide a framework for the Fed and Congress to balance monetary credibility and a wider set of macroeconomic policy goals.

Democratic control contains no guarantees of sound outcomes. The wager of this proposal is that more accountable processes are *more likely* to generate accountable outcomes than unaccountable processes. This is not certain and requires that the actors holding the Fed to account value expertise, research, and the public interest. Ultimately, a Fed that is more accountable to Congress is not guaranteed to enact a monetary policy that better serves the broad public—but the alternative is an arbitrary and unaccountable approach in which no empowered actors’ incentives align with those of ordinary Americans.



A Fed Shrouded in Mystery Threatens Accountability and Economic Stability

by Christian Flores

Over the past century, the Federal Reserve and central banks across the world have continuously evolved toward greater transparency in their public communications. Monetary authorities were historically secretive and shied away from revealing too much information as central bankers [believed](#) that less communication preserved their policy flexibility. Silence insulated them from short-term political pressure, thereby improving monetary policy effectiveness—or so the argument went. [Others](#) were self-righteous and held that central banking was an “esoteric art” that should be confined to the “initiated elite.” In fact, Montagu Norman, Governor of the Bank of England between 1920 and 1944, a [tumultuous economic period](#) no less, had a [famous motto](#): never explain, never excuse.

Recognizing that a country’s central bank wields tremendous influence over national economic conditions, there has been a recent push for more transparency in monetary policymaking. A [growing literature—including research](#) from this year’s joint-winner of the Nobel Prize in Economics, [Michael Woodford](#)—shows that more transparent monetary policy can be more effective in achieving central banks’ desired outcomes. And for the past three decades, that push has [largely succeeded](#) in the central banks of countries at various levels of development, the Federal Reserve included.

The Fed’s new chair, Kevin Warsh, however, has made it his mission to return to the dark age of central bank secrecy. **As the Trump administration undermines the Fed’s independence and the United States faces macroeconomic uncertainty, the last thing our economy needs is a cryptic central bank.**

A [good life agenda](#) requires a stable economic foundation, both for families to go about daily economic life and for policymakers to pursue progressive causes. Returning the Fed to its culture of secrecy is incompatible with achieving those goals.

The Rise of Fed Communications to Shape Market Expectations

Contrary to the historical case made for less transparency, clear central bank communication can actually improve monetary policymaking. In 1995, then-Fed Vice Chair Alan Blinder [explained](#) how a central bank that openly communicates has an opportunity to build credibility by delivering on its publicly stated goals. Communication can also make monetary policy more effective [by shaping market expectations](#) about future policy, creating predictability in both central bank decisions and market reactions,



which in turn reduce economic volatility. A credible central bank can influence expectations without needing to act on the real economy. It was this logic that compelled then-Fed Chair Alan Greenspan to release the first-ever Federal Open Market Committee (FOMC) [policy statement](#) back in 1994.

By the end of his tenure, Greenspan himself noted a trajectory toward openness and [said](#), “The importance of expectations has also shaped our increasing transparency about policy actions . . . We have moved toward greater transparency at a ‘measured pace’ in part because we were concerned about potential feedback on the policy process.”

His successor, Ben Bernanke, picked up the baton and pushed the Fed even further in the direction of open communications by relying heavily on [forward guidance](#) during the global financial crisis, eventually establishing the modern convention of quarterly [public press conferences](#) that Jerome Powell extended to follow each FOMC meeting. The purview of central banks grew to set clear expectations for both market participants and fellow policymakers, leading to Bernanke’s [quip that](#) “monetary policy is 98 percent talk and only 2 percent action.”

The Warsh Fed’s Attempted Retreat from Transparency

The clear benefits of transparency and steady increases in central bank openness were a part of a widely held set of beneficial norms, though they have not been codified in law. Over the decade after Bernanke stepped down as Fed chair, chairs Janet Yellen and Jerome Powell maintained these norms.

Warsh, however, has reached the opposite conclusion. At his first Jackson Hole Symposium as chair, he [said](#), “Transparency in communications about future policy decisions is not a virtue unto itself.” He has suggested that the [FOMC meet less frequently](#), hinted that he may hold [fewer press conferences](#), and lamented that his FOMC colleagues publicly communicate [too much](#). There may be even more proposals on the way, as one of the five task forces Warsh established is [focused on](#) Fed communications.

Partly driven by assessments of COVID-era monetary policy decisions, [some policymakers](#) have argued that forward guidance and communications need to be revisited. While there is merit in the belief that the Fed was underprepared for the [post-pandemic inflation surge](#), and that [unclear communication](#) can be counterproductive, the impulse to overcorrect is misguided.

Secrecy benefits institutional investors, as highly informed traders rely on whisper networks and [other information](#) that is hidden from the public. Even in the absence of insider wrongdoing, higher market volatility tends to [advantage sophisticated market participants](#) who have the capital and infrastructure to capitalize on bigger and more



frequent price swings. Warsh's first few months in charge indeed added to market volatility and created [larger swings in expectations](#) over Fed policy, [contributing to rising yields](#) that have [increased borrowing costs](#) during an [already deep affordability crisis](#).

The market reaction certainly caught the chair's attention as he later changed course in his Jackson Hole speech, speaking more openly about the Fed's reaction function. By [offering a clearer outline](#) of how he perceived the economy and the Fed's potential policy response, Warsh implicitly accepted the conventional wisdom on transparency when he needed to achieve a monetary policy outcome.

It was a welcome change, but not surprising as several market watchers urged him to reconsider his previous approach, including former New York Fed president [Bill Dudley](#) and former Cleveland Fed president [Loretta Mester](#). For the sake of monetary policy and economic efficiency, it is imperative that the Federal Reserve return to its precedent of providing clear information for markets to function properly.

A Lack of Monetary Policy Communication Hurts Trust in Public Institutions

Transparency is the bedrock of a democratic society. Government officials that influence millions of livelihoods must be forthcoming about their decision-making; the Fed bears even greater responsibility because FOMC officials are not democratically elected and enjoy a great deal of [instrument independence](#). Public communication is the only mechanism for everyday working people to hear from these key policymakers.

The general manager of the Bank for International Settlements, Pablo Hernández de Cos, put it best when he [explained that](#) “a key means of accountability [for central banks] is clear communication to explain policy decisions to the public, rationalising the central bank's actions and describing how they help to achieve its mandate.”

Warsh's attempted return to secrecy may backfire and erode public trust, given that support for the Fed [is sensitive](#) to the information people receive. To be sure, monetary policy should remain insulated from political pressure, as [countries](#) that do not have central bank independence suffer from unstable macroeconomic conditions and high inflation. That independence, however, must be exchanged for consistent, public clarity about the Fed's decisions—otherwise our monetary authority risks losing its democratic legitimacy.

The Fed is no stranger to moments of public vulnerability that stem from its culture of secrecy. [In 1993](#), Greenspan was at the center of a scandal after Congress learned that for nearly two decades, the Fed had privately retained FOMC transcripts after initially



denying that these records existed. Only after then–House Banking Committee Chair Henry Gonzalez led pressure against the FOMC did it agree to publicly release its meeting transcripts on a five-year lag.

Over a decade later, during the global financial crisis, the Fed relied on its emergency lending authorities to rescue failing financial institutions. These operations were shrouded in secrecy, leaving the [public without clarity](#) about why the Fed saved some firms and not others. With nearly one trillion dollars on the line, Congress decided that this power was far too discretionary and later limited its scope by [amending](#) Section 13(3) of the Federal Reserve Act. But the damage was already done as the backlash against these bailouts helped fuel the [Occupy Wall Street movement](#).

As the economy was in turmoil from COVID-19, FOMC officials were [actively trading financial assets](#) while simultaneously voting on consequential interest rate decisions. Those FOMC members [eventually resigned](#), and the Fed has since voluntarily [adopted new ethics rules](#) in response. Still, a few years later, another official was implicated in [ethics violations](#), suggesting that the Fed’s ethics problem remains unresolved.

Most recently, the Fed’s lead bank regulator [attended and spoke](#) at an invitation-only private dinner with bankers that she is supposed to have oversight over. The lack of transparency, coupled with behavior that weakens public confidence, highlights not only the need to reject Warsh’s endeavor of a more secret Fed, but that there remains much work to be done.

Policy Options for Congress to Promote Fed Transparency

Any significant push for Fed reform must come from Congress. When changes to the institution are substantive enough to have serious implications for the US economy and democracy, then Congress, the democratically elected body, should be at the forefront of the debate. Whether one agrees with Warsh’s proposed direction is second order. The FOMC alone should not be able to claw back the transparency it has established—at times under congressional pressure—over the past three decades.

This issue warrants legislative debate because communications are not only a tool for the Fed to conduct monetary policy, they are a mechanism for accountability. In the context of financial regulation, Fed scholar Lev Menand [argues](#) that Congress should be more involved in managing the economy, and that responsibility should extend to changing the way the Fed communicates. Under the second Trump administration, several norms across the federal government [have been shown to be weaker](#) than once thought. Congress must therefore amend the law to preserve the Fed’s transparency.

- 1) First on the agenda should be codifying the Fed norms that have served the economy well. Congress need not be prescriptive or encroach on the Fed’s



independence in setting monetary policy, but **it should codify the Fed's current levels of transparency as a floor without establishing a ceiling that could constrain better and more accountable policy in the future.** Since 1981, outside of financial crises, the FOMC has [met eight times](#) a year to assess economic conditions and vote on monetary policy despite Congress only [mandating](#) a minimum of four meetings a year. If Warsh wants to meet less frequently, Congress should revisit the question (perhaps even including the chair's input). Eight meetings a year should be the new statutory minimum, solidifying the practice over the past 45 years and providing the FOMC with ample flexibility to monitor incoming data.

- 2) Next, **Congress should ensure that the current and consistent practice of Fed policy communication is maintained.** As mentioned, by the Fed's discretion, policy statements were nonexistent until 1994, and individual FOMC vote tallies were not [revealed publicly until 2002](#). To hold Fed officials accountable, Congress should codify the requirement that monetary policy choices and individual vote records be made public immediately following every FOMC meeting. Finally, whatever [one's opinion](#) may be of the Summary of Economic Projections, it is clear that the public desires to have and should have some insight into the Fed's views on the economy. Whether in the form of a dot plot or another kind of forecast, anonymized or not, Congress should require the Fed to offer a periodic outlook to enable longer-term household and business planning.
- 3) Warsh's belief that press conferences should be reserved to "[deliver important news](#)" is insufficient reasoning to hear less from the Fed chair. Therefore, **Congress should amend [Section 2B of the Federal Reserve Act](#) to require the Fed chair's testimony six times a year.** That mandates a visit to the Hill once every two months and allows the public and elected officials to hear about the chair's decision-making more frequently. This would create a virtuous cycle of a more democratically accessible Fed, and a legislature with more incentive to invest in the expertise required to hold it accountable.

In their current iteration, the Humphrey-Hawkins hearings provide legislators too little time to cover six months' worth of questions about the economy. Senators and members of Congress also devote hearing time to other questions [surrounding ethics](#) or [supervisory matters](#), leaving less opportunity to cover substantive monetary policy.



- 4) In addition, **Congress and the public should hear from the rest of the Federal Reserve Board of Governors, requiring testimony from each of them at least once a year.** As the chair will testify six times a year, that means they can be paired with a Fed governor to answer questions. Hearing from other Senate-confirmed officials will offer insight into the range of views at the Fed and continue to strengthen accountability.
- 5) Finally, **a complex financial institution like the Fed needs ethics reform set by Congress.** The scandals arising from a body that already enjoys a great deal of independence call for guardrails to uphold public trust. Part of these reforms would include banning private events with people that the Fed is meant to regulate. While it would be a mistake and impractical to isolate FOMC members from financial market participants, there should be [public readouts of private meetings](#) with Fed officials that provide at least an idea of what is discussed behind closed doors. And to avoid the perception of creating whisper-networks, attention should also be devoted to official rules [regarding conference visits](#) that are largely inaccessible by the public because of high costs.

Altogether, these reforms would sustain the Fed's progress on transparency and protect against the threat of secrecy that Warsh has raised.

Conclusion

The Fed's crucial role in the modern economy cannot be overstated, and increased transparent communication has helped create more effective Fed policy. Chair Kevin Warsh's effort to return to a cryptic Fed is a wake-up call for Congress; legislators must act to prevent backsliding and maintain the transparency the Fed developed over the past few decades. And to truly deliver a more democratic Fed, and more effective monetary policy, Congress must prioritize codifying additional Fed accountability practices. Otherwise, the Fed risks returning to the dark ages of central banking.





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