

Congress and the Federal Reserve:
Independence and accountability

Sarah Binder
George Washington University
Brookings Institution

Mark Spindel
Potomac River Capital, LLC

Forthcoming in

Jenkins, Jeffrey and Eric Patashnik, Eds.
Congress and Policy Making in the 21st Century (Cambridge University Press)

Draft February 2015

We thank Alyx Mark, Douglas Cohen, and Benny Miller-Gootnick for invaluable research assistance.

Abstract

The recent global financial crisis reveals limits of central bank independence. In the U.S, Europe, and Japan, politicians have replaced central bank governors, revamped their lending powers, and imposed greater transparency. Such legislative action challenges the assumed importance of central bank autonomy. In this chapter, we focus on the U.S. Federal Reserve, exploring the tradeoff between central bank independence and democratic accountability. We offer a framework for understanding how lawmakers influence monetary policy given expectations (even within the limits) of central bank independence, and track congressional attention to the Fed in the postwar era. We pay special attention to Congress's reactions to the Fed in the current era of partisan polarization, a period in which the Fed first lowered interest rates to zero and then, in an effort to ease monetary policy further, adopted a series of unconventional lending and asset purchase programs. We conclude that Congress's reactions to the Fed's unconventional toolkit—especially at the zero bound-- helped to bring democratic values to bear on the making of monetary policy.

In his last press conference as chairman of the Federal Reserve's Board of Governors in 2013, Ben Bernanke was asked what advice he would offer Janet Yellen, the incoming chair, for dealing with Congress. Bernanke kept it simple: "Congress is our boss" (Federal Reserve 2013, 29). The Fed's relationship with Congress is hardly that straightforward. Indeed Bernanke immediately added: "It is important that we maintain our policy independence in order to be able to make decisions without short term political interference." Bernanke's advice and admonition highlight the inevitable tension for Congress between insulating monetary policy from political pressure and holding the Fed accountable for its policy decisions.

The tradeoff between independence and democratic accountability is most apparent in the wake of financial and economic crises with interest rates at zero and central banks compelled to break the glass, tapping unconventional tools to ease policy further. Indeed, the recent global financial crisis reveals the limits of central bank independence. In the U.S, Europe, and Japan, politicians have renewed their focus on central banks—replacing governors, revamping lending powers, and demanding greater accountability. Heightened oversight of monetary policy contrasts sharply with studies of central bank autonomy: Politicians are said to prefer independent central banks because more independent monetary authorities aim to deliver lower and more stable inflation (Alesina and Summers 1993). Committing in advance to central bank autonomy in theory prevents politicians from interfering with monetary policy to ease conditions for electoral gain.

Why and when do politicians threaten to revise the degree of independence they afford their central banks? And how does the current state of partisan polarization—coincident with the worst financial crisis since the Great Depression—affect how lawmakers react to the Fed's implementation of monetary policy? In this chapter, we focus on Congress's relationship with

the Federal Reserve in the postwar period. First, we offer a framework for understanding how lawmakers influence monetary policy given expectations of central bank independence. We argue that Congress and the president largely shape monetary policy *indirectly*: setting goals for the Fed, reforming Fed governance, and imposing greater transparency. Second, we explore the conditions under which lawmakers threaten to change the Fed's goals, governance or accountability. Examining patterns in the sponsorship of House and Senate bills addressing the powers and governance of the Fed over a sixty-year period, we show that congressional threats flow predictably from both the state of the economy and lawmakers' electoral and partisan interests. Finally, we explore how the Fed's adoption of unconventional monetary policies in the current period of partisan polarization provoked both parties to push for greater accountability at the cost of the Fed's independence. Accountability, we argue, trumps independence when lawmakers seek to blame the Fed for a faltering economy.

The Accountability – independence tradeoff

Politicians face a dilemma in designing central banks. Given the impact on output, inflation and employment, macroeconomic decisions made by central banks are among the most important policy choices rendered in a democracy. Monetary policy affects interest rates, which in turn shape the public's borrowing costs, the availability of credit, and ultimately household wealth. As public demand for goods and services grows, economic growth ensues as businesses increase production and employ more workers. The dilemma arises from politicians' electoral incentives, which lead them to want to stimulate the economy-- particularly in the run up to an election. That short-term strategy, however, has long-term costs: it increases the chances of inflation and brings an inevitable economic recessionary payback.

The solution worldwide has been to try and insulate central bankers from political interference that might otherwise induce monetary policy makers to keep interest rates too loose for too long. That is the root of politicians' dilemma: fully autonomous central banks preclude a role for lawmakers to oversee macroeconomic policy. In short, lawmakers face a tradeoff between central bank independence and democratic accountability. The tradeoff was particularly acute and contested in the wake of the Great Recession in late 2008 and 2009 when the Fed lowered interest rates to zero and implemented additional unconventional policies designed to rescue the financial system, prevent an even more dire economic collapse and spur an economic recovery. Pumping trillions of dollars into the economy, at times via emergency lending programs insulated from congressional oversight, raised the ire of politicians on the left and right—not surprising given intensely competitive parties in a period of polarization. Critics on the right charged that the Fed's three rounds of bond purchases (including mortgages and Treasuries) on top of an alphabet soup of targeted lending programs amounted to Fed-driven credit policy—crossing the boundary between monetary and fiscal policy and in effect challenging Congress's control of fiscal policy. Critics on the left hit hard against the Fed's refusal to release the names of borrowers from the Fed's emergency lending facilities and against the Fed's lax supervision of large banks and financial institutions. Congress reacted by strengthening the Fed's supervisory powers, as well as by imposing new transparency rules and clipping the Fed's lending powers when it reformed the financial regulatory system in the Dodd-Frank Act of 2010.

Congress and the president generally grant the Federal Reserve free reign to craft monetary policy within constraints set in the Federal Reserve Act (the "Act"). Those constraints set the terms of the Fed's independence, although Congress periodically revises the Act in ways

that alter the balance between Fed independence, centralization, and congressional oversight. Today, statutory features protecting the Fed's independence include fourteen-year terms of members of the Fed's Board of Governors, self-financing of the Fed through its monetary policy operations (including control of the printing press), staggered four-year terms of presidents and Fed chairs, and insulation of a regional reserve system from political control. Most importantly, within the bounds of the Act, the Fed and its monetary policy committee are granted autonomy over the instruments of monetary policy: Congress mandates audits of the Fed's books, but not its policy choices.

In reviewing challenges to the Federal Reserve's independence six years after the onset of financial crisis in 2007, former Vice-Chairman Don Kohn (2013) identified three elements of the Fed as potential targets of Congressional activity: the Fed's statutory goals, governance, and accountability. These three elements are central in examining why and when Congress addresses the Fed's conduct of monetary policy. None of the three are themselves *instruments* used by the Fed to shape monetary policy. However, each of them provides lawmakers with a mechanism for influencing how monetary policy is made—enabling the legislature to adjust the level of Fed independence.

Three examples are instructive. First, to influence the broad objectives of the Fed, Congress and the president must amend the Act, which establishes the goals of the Fed. These statutory mandates define the Fed's broad aims in managing the economy. Discussions of the Fed's autonomy typically distinguish between “goal” and “instrument” independence, suggesting that changes to the Fed's goals fall squarely within the province of lawmakers. For example, some lawmakers periodically call for stripping the Fed of its “dual mandate,” the twin goals stipulated by Congress in 1977 that require the Fed to pursue both price stability and maximum

employment. By setting the Fed's broad objectives (or by threatening to change them) Congress indirectly influences the conduct of monetary policy. The Federal Reserve's adoption of the "Evans Rule" in 2012-- which committed the Fed to keep short-term interest rates near zero so long as unemployment remained above 6.5 percent and future inflation no higher than 2.5 percent—illustrates how Congress can indirectly influence monetary policy: The Fed's adoption of the Evans Rule was justified by the Federal Open Market Committee (FOMC) on the grounds of the Fed's statutory mandate to pursue both employment and low inflation.¹

Second, Congress has the authority to influence the internal governance structure of the Fed. Since the early 1930s, the structure of the FOMC has been stipulated in the Federal Reserve Act. Legislators periodically seek to revamp the makeup of the FOMC, at times proposing to strip the regional Federal Reserve Bank presidents of their voting rights within the FOMC. Other reforms aimed at Fed governance entail changes to the rules of appointment, such as altering selection and confirmation rules for regional reserve bank presidents or aligning the terms of the chairman of the Federal Reserve and the president. If adopted, such changes grant lawmakers indirect influence over monetary policy and adjust the Fed's degree of independence. Revamping the FOMC empowers Congress to alter the set of central bankers endowed with voting rights, while aligning presidential and chairman terms theoretically could increase a chair's responsiveness to the policy views of the administration.

Third, lawmakers can alter transparency requirements for the Fed. In the late 1970s, such efforts took the shape of compelling semi-annual testimony from the Federal Reserve chairman before the Hill's banking panels. More recently, such moves seek to require more disclosure by the Fed about the conduct of monetary policy. Consider, for instance, Rep. Ron Paul's (R-Tx)

¹ Of course, the dual mandate has been in place since 1977, and the FOMC only adopted the Evans Rule several years after the onset of the (2008-2009) recession. On the rationale for linking employment and interest rates, see Evans (2012).

“Audit-the-Fed” plan that was significantly weakened and then incorporated into Dodd-Frank. Paul’s original plan would have extended existing GAO audits of the Fed to cover FOMC decision making about monetary policy; the amended provisions in Dodd-Frank imposed new transparency requirements. The Fed was directed to release the identity of borrowers from the Fed’s emergency credit facilities during the height of the Great Recession, as well as the identity of future borrowers from the Fed’s regular discount window and other emergency lending programs. Such targets do not give lawmakers a direct shot at setting interest rates. But the Fed still strongly opposed the new disclosure requirements, and fought a corollary effort by Bloomberg News to impose transparency through legal action (Zumbrum 2012). The Fed’s opposition suggests that higher levels of transparency affect how the Fed weighs the costs and benefits of competing policy choices. That of course is why lawmakers favor greater transparency: By constraining Fed independence, such reforms empower Congress to indirectly shape the course of monetary policy.

One exception to these indirect mechanisms for influencing monetary policy merits review. Reaching back to the 1930s, Congress has alternately created, restricted and restored emergency lender of last resort powers for the Fed, commonly known as 13(3) powers (Fettig 2008), in reference to the section of the Federal Reserve Act that governs lending during “unusual and exigent circumstances.” In response to the financial crisis in 2007 and 2008, the Fed relied on its 13(3) authority to set up several novel emergency facilities that ultimately lent over three trillion dollars to commercial and foreign banks, as well as to other types of financial institutions and individual corporations (Torres and Lanman 2010). In Dodd-Frank, Congress reined in 13(3), requiring the consent of the Treasury secretary for future emergency lending and prohibiting emergency lending to individual firms. Changes to 13(3) limit Fed independence (by

making emergency lending contingent on approval by Treasury) and allow Congress to directly influence the Fed's instruments for pursuing monetary policy. Lawmakers' move to limit the use of the Fed's lender of last resort authority highlights Congressional limits on Fed autonomy. As former Federal Reserve chairman Paul Volcker inartfully put it, "Congress created us and Congress can un-create us" (as quoted in Greider 1989, 22)

Lawmakers' incentives to reform the Fed

Why do lawmakers pursue potential reform of the Fed? Prominent theoretical treatments of the relationship between Congress and the Federal Reserve argue that legislators have little electoral incentive to care about the conduct of monetary policy. As Woolley (1994, 78) argues, even when Congress is particularly upset with the course of monetary policy, "the Congressional response has almost never taken the form of trying to bring about institutional reforms that would reduce the probability of the same thing happening again." Woolley (1994) argues that legislators either believe that their interests are well served by existing arrangements or disagree about appropriate reforms. As Morris (2000) argues, even if legislators have an incentive to punish the Fed for its policy choices, in equilibrium we are unlikely to see Congress do so: Fear of being punished should motivate the Fed to comply with congressional preferences.

To be sure, the Fed's central macroeconomic role complicates legislators' efforts to credibly claim credit for positive economic news. Taking credit for a robust economy can be thorny because monetary policy is not typically delivered in the form of geographically concentrated benefits. Lawmakers can tout their efforts to fund a new bridge or highway interchange in their state or district. In contrast, because economic benefits are felt regionally and nationally, lawmakers will struggle to convince voters that they are specifically responsible for an economic boom. The Fed's regional reserve banks provide loans to banks via their

discount windows. Theoretically, lawmakers could take credit for such actions by the Fed. In practice, before enactment of Dodd-Frank, the regional banks operating the discount windows did not publicly identify their borrowers. Even with Dodd-Frank's new transparency rules for discount window lending, the long lag between lending and disclosure undermines congressional credit claiming.² Concentration of power in the hands of recent Fed chairs further undermines the credibility of legislators' efforts to claim credit for the state of the economy. These considerations should deter "single-minded seekers of re-election" (Mayhew 1974) from investing time or resources in influencing monetary policy, even if they do try to take credit for good economic times.

Still, lawmakers periodically invest energy, time, and resources in efforts to reform the Fed. The same elements of the Fed that complicate credit claiming offer perfect opportunities for blame avoidance. The Fed's independence and prominent leadership complicate voters' efforts to blame lawmakers when the economy sours. With central bankers at least partially responsible for economic conditions, lawmakers can freely scapegoat the Fed for whatever ails the economy. Lawmakers might seek to alter the Fed's goals, governance or accountability. Or they might simply threaten to do so. It might not matter which route they take: either strategy would require the Fed to anticipate and possibly accommodate Congressional views. In short, when the economy sours, we should expect legislators to introduce more bills targeting the powers and structure of the Fed.

Since lawmakers' electoral incentives underlie their attention to the Fed, we should expect congressional parties' electoral and policy interests to also drive legislative attention to

² Judging from Irwin's (2013, 193) account of an interaction between the president of the Dallas Federal Reserve Bank and a local member of Congress, we can't assume that lawmakers understand the lending activity of the reserve banks. According to Dallas reserve bank president Richard Fisher, the member seemed shocked to learn that the Dallas Fed could make loans to banks in his congressional district.

the Fed. Given that Democratic voters might tolerate inflation more readily than higher-income Republican voters, we might expect Democratic lawmakers to pounce on the Fed when unemployment is high. In contrast, Republican lawmakers might be more likely to take aim at the Fed when inflation rises. Of course, since the dual mandate forces the Fed to attend to both inflation and unemployment, Democrats might quell their criticism of the Fed after creation of the dual mandate. In contrast, Republican attention might increase after adoption of the dual mandate if GOP lawmakers thought that the dual mandate put the Fed's commitment to low inflation at risk.

Like most national institutions, the Federal Reserve has been caught in the crosshairs of contemporary partisan polarization. Democratic party leaders were generally quiescent about the Fed's unconventional policies when interest rates hit the zero lower bound compared to GOP leaders and presidential candidates who excoriated the Fed, its former chairman Ben Bernanke and its three rounds of large-scale asset purchases in the wake of the financial crisis and recession. Polarization (which breeds legislative deadlock) may undermine the credibility of lawmakers' threats to reform the Fed. Still, the Fed is vulnerable to congressional intervention on those issues on which the parties agree. In the wake of financial and economic crises starting in 2007, the two parties agreed on a fair amount—including greater accountability of the Fed to Congress.

In short, during particularly bad economic times, we should expect both parties to threaten to reform the Fed. Such attacks could call for clipping the Fed's wings or for endowing the Fed with more power. Given the political value of holding the Fed accountable for declines in the economy, granting the Fed more power after bad economic times could be a rational strategy for blame-averse lawmakers. (It might also reflect the lack of other regulators with

sufficient expertise or prominence to share the Fed’s responsibilities.) Rather than threatening to retrench central bank authority and autonomy in the wake of financial disaster, politicians might have a strong incentive to expand it. Below, we explore such possibilities in our analysis of the bill introduction data.

Legislative attention to the Fed, 1947-2014

We capture lawmakers’ attention to monetary policy by tracking the introduction of bills between 1947 and 2014 that address the power, structure, and governance of the Federal Reserve. Following Schiller (1995), Sulkin (2005, 2011), and Volden and Wiseman (2013), we treat lawmakers’ bill portfolios as statements of their issue agendas: Regardless of whether legislators’ efforts become law, sponsoring a bill signals a lawmaker’s policy and political priorities. After identifying the set of relevant bills, we code the content of each bill along several dimensions, including whether the bill seeks to constrain or empower the Federal Reserve, increase or decrease its independence, centralize or decentralize power within the Federal Reserve System or alter the makeup of the Federal Reserve’s Board of Governors.³ Overall, 879 bills were introduced in the House and Senate over these six and half decades, representing the legislative efforts of 333 House and Senate lawmakers.

Bill sponsorship: We start by examining trends in bill sponsorship. Figure 1 shows the number of bills introduced each year. We overlay a smoothed “misery index”⁴ on the data to

³ For the period 1947-2008 (80th-110th Congresses), we rely on the Congressional Bills Dataset maintained by Adler and Wilkerson (1947-2008) to identify bills that would amend the Federal Reserve Act. For the period 2009-2014, we locate relevant bills via Thomas.loc.gov. The content of each bill can be determined from Thomas. For the period before 1973, we consult bill text available in CIS Congressional Bills, Resolutions & Laws on Microfiche (1933-2008).

⁴ The “misery index” sums up the unemployment and inflation rates. We obtain annual inflation rates (change in the CPI-U maintained by the Bureau of Labor Statistics) from McMahon (2014). Annual unemployment rates are available at Bureau of Labor Statistics (2014). http://data.bls.gov/timeseries/LNU04000000?years_option=all_years&periods_option=specific_periods&periods=Annual+Data

demonstrate the relationship between attention to the Fed and the state of the economy. The data suggest that legislative attention rises and falls coincident with economic conditions, particularly with the onset of recession in the late 1950s and early 1960s, the mid 1970s and early 1980s, and most recently during and after the Great Recession. Conversely, Congressional attention drops precipitously with the onset of the so-called Great Moderation under Fed chairman Alan Greenspan by the middle of the 1980s.

[Figure 1 about here]

Bill sponsorships also provide a window into the two parties' relative interest in the Fed, as shown in Figure 2's display of the relative annual proportion of Federal Reserve bills introduced by Democrats and Republicans. For most of the postwar period before the stagflation set in in the 1970s, Republicans seemed disinterested in monetary policy. Granted, there were typically fewer Republicans than Democrats in the House and Senate over this long period of Democratic control of Congress. Still, Republicans' interest in the Fed begins to grow (as Democrats' interest wanes) after creation of the dual mandate in 1977, long before the onset of GOP majorities in the 1994 elections. Once Democrats achieved a major change to the Fed's monetary policy mandate compelling attention to rates of unemployment and inflation, their incentives to seek further changes in the powers of the Fed receded.

[Figure 2 about here.]

With the onset of the Great Recession and the adoption of unconventional monetary policy tools (after the Fed had already lowered interest rates to near zero), the parties appeared to care equally about the central bank and its policies. Between 2007 and 2012, Democrats and Republicans introduced roughly the same number of bills, although Republicans' legislative

activity climbed markedly in 2013 and 2014. Partisans often differed in their prescriptions for the Fed. Democrat Barney Frank of Massachusetts proposed stripping reserve bank presidents of their FOMC votes, a move that would empower presidential Fed appointees and centralize power considerably within the Fed's Board of Governors; Republican Kevin Brady of Texas wanted all twelve reserve bank presidents to vote at each FOMC meeting (rather than the current rotating scheme that limits reserve bank presidents to five votes each meeting). District bank presidents tend to be more hawkish than the DC-based Board members, making it tougher on the Board to monopolize monetary policy. Still, on some issues—particularly related to transparency—coalitions sported odd bed-fellows: Liberal Bernie Sanders (D-Vermont) advocated with conservative David Vitter (R-Louisiana) audits of the FOMC.

Substantive focus: A clear pattern also emerges when we examine the content of the bills. First, we examine bills that would directly empower or constrain the Fed. Empowering bills provide the Federal Reserve System with new authority, for example extending the Fed's authority to purchase obligations directly from Treasury. Constraining bills limit the Fed's authority, for example by preventing the Fed from purchasing certain obligations from foreign governments or mandating new action by the Fed (such as requiring the Board of Governors to establish monthly targets for interest rates).⁵ To determine the net sentiment across lawmakers sponsoring bills each year, we tally the total number of constraining and empowering bills each year, and subtract empowering from constraining bills.

Figure 3 captures lawmakers' sentiment for reining in the powers of the Fed over the

⁵ If a given bill includes provisions that both constrain and empower the Fed, we code the provisions separately and determine whether on net, the bill constrains or empowers the Fed. The drawback of the method is that we treat each provision equally, regardless of substantive significance. The benefit of the method is that we avoid subjective determinations of the relative importance of provisions in a single bill.

postwar period (with the smoothed misery series overlaid).⁶ Congressional attitudes about the powers of the Fed appear to vary predictably with the state of the economy. Lawmakers support more authority for the Fed when the economy is expanding; when the economy slips, lawmakers advocate more oversight and control. Granted, these are proposals, not laws. Others report that Congress and the president are likely to respond to financial crises by legislating new powers for the Fed (Irwin 2013). Perhaps Congress weeds out constraining bills in times of crisis. That said, not all economic downturns are alike. It may be that the most severe—the Great Recession in particular—encourage lawmakers to retool the Fed and to endow it with new powers. Regardless of how lawmakers *legislate* in times of crisis, congressional sentiment clearly favors punishing the Fed by curtailing its autonomy during economic recessions.

[Figure 3 about here.]

Second, we chart variation in the number of bills that would increase oversight of the Fed, such as bills to shorten the term of governors on the Board or to expand government audits of the FOMC. Increasing oversight limits independence without explicitly changing the powers of the Fed. We see a now familiar, counter-cyclical pattern in Figure 4. Efforts to impose greater oversight increase when the economy falters. The trend is most noticeable in the early 1980s. Lawmakers from both parties reacted to Fed chair Paul Volcker’s push to markedly increase interest rates in an attempt to induce a deep recession as a means to tame inflation. Democrats advocated changes to the Fed’s organization and powers, including the expansion of the Fed’s Board of Governors. By “packing the court” with additional president-appointed, Senate-confirmed governors to the Board, whose members would then dominate the FOMC, Congress would weaken the influence of reserve bank presidents and potentially dilute the chair’s

⁶ When the bars rise above zero on the Y-axis, lawmakers on balance favor constraining the Fed; when the bars fall below zero, lawmakers prefer to empower the Fed.

influence over monetary policy. Republicans pushed for more audits and for allowing presidents to nominate their own Fed chairs-- likely a GOP rebuke to the independent-minded Volcker whose recession contributed to the GOP's 1982 midterm election losses.⁷

[Figure 4 about here.]

Explaining patterns in congressional attention

How do we account for variation in congressional attention to the Fed? What forces shape the parties' varying interest in the nation's central bank? And why do some lawmakers (but not others) take stands on monetary policy by sponsoring bills targeted at the powers and governance of the Fed? In the models that follow, we use patterns in lawmakers' bill sponsorship to probe the forces that shape legislators' interest in the Fed.

Counter-cyclical congressional attention: Earlier, we suggested that lawmakers' interest in the Fed should increase when lawmakers want to avoid blame for a poor economy. In Table 1 (column 1), we model the total number of sponsored bills each year as a function of the inflation and unemployment rates, including lagged versions of both.⁸ When both parties' legislative measures are combined, we find initial evidence that lawmakers' interest in the Fed is counter-cyclical. Although we find no effect for the inflation rate on the quantity of measures introduced, legislators introduce more bills that address the powers of the Fed as the unemployment rate rises. Separating lawmakers' sponsorship patterns by party offers a more nuanced view of congressional interest in the Fed. As shown in column 2, economic conditions help to shape Democratic lawmakers' priorities: Democrats pay more attention to the Fed when

⁷ Volcker was appointed by Democrat Jimmy Carter, but served well into Ronald Reagan's second presidential term.

⁸ We estimate a negative binomial regression given the count nature of the data. We reject the alternative Poisson model, given that the over-dispersion parameter (alpha) is significantly greater than zero. We also control for the creation of the dual mandate, since requiring the Fed to care about both jobs and inflation should reduce at least Democrats' attention to the Fed's conduct of monetary policy.

the unemployment rate is higher (even after controlling for the rate in the previous year). This suggests that blame avoidance for a poor economy might shape Democrats' focus on the Fed since they turn their attention elsewhere as the economy improves. That said, after a Democratic Congress gave the Fed its dual mandate in 1977, Democrats' interest in the Fed appears to have waned. Legally mandating that the Fed maximize employment while maintaining price stability might have lessened Democrats' perceived need to empower or constrain the Fed through legislative threats. In short, both electoral and policy goals might drive Democrats' attention to the Fed.

[Table 1 about here.]

In contrast, as shown in column 3, Republican lawmakers' interest in legislating change seems divorced from the state of the economy. We do find that GOP activism rises markedly after the dual mandate was created in the 1970s. We see spikes in GOP bills in the late 1970s (in response to runaway inflation during the Carter administration) and again just before and after the Great Recession. Interestingly, recent commentators have noted that Republican views about monetary policy are "stuck in the late 1970s... To judge from the rhetoric of most Republican politicians, you would think we were again suffering from galloping inflation" (Ponnuru 2013). Perhaps GOP misperceptions—worrying about inflation in the absence of evidence-- weaken any relationship between economic conditions and their party's activism more broadly. Low levels of GOP attention to the Fed before the late 1970s might also explain the broken link, shortening the period over which we can detect the impact of economic misery. Finally, we observe that the recent rise in GOP attention to the Fed largely reflects the party's effort to repeal Dodd-Frank. Republicans' recent legislative activism might be driven more by their desire to unravel Democrats' regulatory gains than by GOP concerns about the state of the economy.

Variation across lawmakers: We can also test for the relevance of lawmakers' electoral incentives by examining variation in sponsorship behavior at the individual level. In Table 2, we model bill introduction behavior in the 112th (2011-2) House and Senate. Given an economy and labor market still struggling to recover, the time seems ripe for Fed-bashing by electorally vulnerable incumbents seeking to blame the Fed for the weak recovery. If so, we would expect more electorally-vulnerable legislators to be more likely to introduce bills addressing the Fed. We also control for factors that typically shape legislators' bill portfolios. For example, lawmakers with the best institutional vantage point for influencing policy are more likely to introduce relevant bills. In this case, we should see more legislative activity directed to the Fed by lawmakers who serve on the House Financial Services or Senate Banking panels. Greater legislative activity from these lawmakers might reflect their committee-shaped interests in monetary and financial regulatory policy. Or lawmakers might seek out service on a banking panel if the financial industry is particularly important to their state or district. We also control for each lawmaker's ideological views and freshman status.⁹ Finally, we control for whether a lawmaker hails from one of the eleven states hosting a Federal Reserve district bank; such legislators might be particularly attentive to the powers of the Fed.

[Table 2 about here.]

We model the sponsorship behavior of House Democrats in the first column of Table 2. As expected, lawmakers with closer electoral margins are more likely to sponsor bills: the Fed offers an attractive target for vulnerable members seeking to deflect blame for a struggling economy. Members of the House Financial Services panel are also more likely to address the Federal Reserve, as are more liberal Democrats. The results lend little support for the other

⁹ Ideology is measured via DW-NOMINATE scores made available by Keith Poole at <http://www.voteview.com>. Higher scores represent more conservative legislators.

hypothesized relationships. In contrast, as shown in column 2, Republican attention to the Fed seems divorced from electoral circumstance; only GOP members of the House financial services panel are disproportionately more likely to single out the Fed in their legislative agendas. Such attention could reflect panel members' stronger interests in monetary policy or their districts' greater reliance on the financial industry. If the latter, sponsoring measures addressing the Fed might still be electorally driven, as attention to district interests could be electorally valuable for committee members.

We find similar dynamics underlying senators' legislative attention to the Fed. In Table 2, column 3, we pool all lawmakers and model variation in bill sponsorship. Again, electoral considerations matter: senators who were due to face voters in 2012 were slightly more likely to introduce bills affecting the Fed compared to their colleagues who were earlier in their electoral cycles. Institutional position also matters: senators serving on the chamber's banking panel were disproportionately more likely to sponsor bills targeting the Fed. When we control for each state's average unemployment rate over the course of the congress, we find no evidence that state-specific economic conditions motivated senators' legislative agendas. Nor are freshman senators or those from reserve bank states more likely to target the Fed in their bill portfolios.

On balance, the results suggest that electoral and partisan considerations drive legislators' attention to the Fed—contrary to theoretical accounts that dismiss lawmakers' systematic interests in monetary policy. At the individual level, we find strong evidence that the timing and competitiveness of elections—as well as legislators' policy interests-- mold lawmakers' activism regarding the Fed. Perceptions of Fed independence do not constrain lawmakers from signaling the need to reform the Fed. At the aggregate level, we see similar dynamics at work in shaping broader trends in lawmakers' attention to the Fed. True, the parties vary in their attention to the

Fed over the postwar period: Democrats' interest initially falls off after creation of the Fed's dual mandate in 1977, while Republican interest rises with the Fed-induced recession in the early 1980s. But overall, economic conditions drive lawmakers' prescriptions for the Fed. When the economy is sound, lawmakers propose stronger powers for the Fed; when the economy falters, lawmakers suggest constraining the Fed. Politicians' counter-cyclical attention to the Fed suggests that lawmakers' instinct for avoiding blame shapes legislative activity on monetary policy: Congress focuses on the Fed only after the horse has been let out of the barn.

Congress and the Fed when the parties are polarized

As the other chapters in this volume make plain, today's political parties have reached century high levels of electoral competition and ideological polarization. The intersection of polarization and financial crisis allows us to evaluate oversight of the Fed when the parties hold conflicting views about fiscal and monetary policies. In assessing Congressional oversight during and after the crisis, we note that lawmakers' interactions with the Fed have taken place in an environment of near zero interest rates. This "zero lower bound" was consequential politically because once rates hit zero, the Fed could no longer use conventional tools to stimulate the economy by lowering rates. Instead, the Fed innovated with new, largely untested unconventional monetary policies to rescue and restore the economy. Even Bernanke would later quip after leaving office that the Fed's key unconventional tool worked in practice, but not in theory (Brookings 2014). As we explore below, such policies proved controversial on Capitol Hill and far beyond.

By definition, monetary policy becomes more complicated at the zero lower bound. For example, the Fed's large-scale asset purchases (also known as QE, or quantitative easing) that were intended to lower long-term borrowing rates entailed the purchase of both Treasuries and

mortgage-backed securities, assets underwritten by the housing finance giants Fannie Mae and Freddie Mac. QE supporters argued that because housing finance was at the heart of the financial crisis, bolstering housing markets by reducing long-term rates was essential. Critics, including the president of the Federal Reserve Bank of Richmond, Jeffrey Lacker, countered that “when the central bank buys private assets, it can tilt the playing field toward some borrowers at the expense of others, affecting the allocation of credit” (Lacker and Weinberg 2014).

Unconventional monetary policies, in other words, blurred the line between monetary and fiscal policy and put the Fed in the politically fraught position of choosing economic winners and losers. Many argued that distributional issues were better left for politicians to sort out.

Democrats and Republicans reacted differently to the Fed’s conduct of monetary policy at the zero bound. As a congressional minority starting in 2007, Republicans (occasionally joined by Democrats skittish about re-election) lobbed sharp attacks on the Fed. For example, Senate Republicans repeatedly blocked confirmation of President Obama’s selection of Peter Diamond, a Nobel Prize winning economist for a seat on the Fed’s Board of Governors. Nearly two dozen Republican economists, money managers and former GOP officials penned an unprecedented letter to Bernanke criticizing the FOMC’s plan for large-scale asset purchases, arguing that the Fed’s proposal risked debasing the dollar and stoking inflation (“Open Letter to Ben Bernanke” 2010). One Republican presidential hopeful threatened Ben Bernanke with treason should he step foot in Texas, while other Republicans spearheaded efforts to impose new audits on the Fed or to end the Fed altogether.

In contrast, most Democrats supported the Fed’s conduct of QE after the crisis. As Senator Charles Schumer (D-New York) put it in 2012, the Fed was the “only game in town” to restore the economy, given GOP opposition to more aggressive fiscal policy (Menza 2012). To

be sure, some Democrats argued that given its mandate, the Fed could do more to address the needs of American workers in the wake of the recession: *Times* columnist Paul Krugman, for instance, wondered about the Bernanke conundrum: “the divergence between what Professor Bernanke advocated and what Chairman Bernanke has actually done” (Krugman 2012).

Moreover, some Democrats rallied with the “Occupy the Fed” movement, charging that the Fed had made rescue of Wall Street, not Main Street, its top priority. Protesting both the Fed’s role in precipitating the financial crisis as well as its subsequent policy choices, eleven Democrats joined eighteen Republican senators to oppose Bernanke’s confirmation for a second term as chair of the Federal Reserve Board of Governors. Democrats on the left (such as Senator Bernie Sanders of Vermont) agreed with more conservative Republicans (such as Richard Shelby of Alabama) that the Fed before and after the financial crisis catered too strongly to Wall Street interests at the expense of Main Street (Andrews 2009).

With control of both chambers and the White House, Democrats did more than question the extent of Bernanke’s commitment to the Fed’s unemployment mandate. Democrats exploited their congressional majorities in 2009 and 2010 to legislate in the Dodd-Frank Act several new restrictions on the Fed’s future use of its powers. Granted, Dodd-Frank also enlarged the scope of the Fed’s authority by giving it new supervisory powers to regulate systematically important financial institutions. But Congress also curtailed the Fed’s authority. It imposed greater transparency on the Fed’s lending programs, limited the scope of future emergency lending and the Fed’s autonomy to conduct it, and attempted to reduce conflicts of interest in the selection of reserve bank presidents by tweaking selection procedures for the heads of the reserve banks. Near uniform party lines prevailed in passing the final conference report, with only three GOP defectors joining most House and Senate Democrats in support of the bill.

Although partisans disagreed about the efficacy of QE and how to reform the Fed, congressional efforts by both parties to hold the Fed accountable likely limited Fed independence. Bernanke often reminded his audiences that policy independence was critical for making the right decisions for the economy, and that the Fed always made its decisions immune from short-term political influence. Still, Congress's aggressive oversight of the Fed sent strong signals to the Fed that it would have to become more transparent about its policies and more responsive to its critics if it hoped to forestall stronger limitations on its powers. As Bernanke has acknowledged, "I learned in the crisis that transparency served broader purposes, including maintaining the right relationship with Congress and explaining the Fed's policy choices to the public (Bernanke 2014)." Bernanke responded by reaching out to Main Street: he explained and defended monetary policy choices in college lectures, town hall meetings, and national televised interviews. A truly autonomous central bank might have felt little compulsion to explain itself to the public. Polarized parties in the wake of the crisis made clear to the Fed that its precarious political standing required greater responsiveness to the (often conflicting) demands of its congressional overseers.

Conclusions

"The decisions made by the central bank are not just technical decisions; they involve trade-offs, judgments about whether the risks of inflation are worth the benefits of lower unemployment. These trade-offs involve values.... 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 those that comprise society (Stiglitz 1998, 216, 218).

Stiglitz's address—a full decade before the Great Recession—highlights the tradeoff democratic governments face in maintaining independent central banks. More autonomous central banks are more likely to deliver lower and more stable inflation than less autonomous ones—and certainly lower and more stable inflation than if politicians directly control the money

supply. At the same, politicians have electoral and other incentives to hold the Fed accountable for its policy decisions—particularly in times when a commitment to price stability generates or sustains higher unemployment. Tougher congressional oversight, greater transparency, and new selection mechanisms for Federal Reserve Board and other appointees – these and other reforms provide targets for lawmakers dissatisfied with the effects of the Fed’s monetary policy choices.

Congressional views about the appropriate balance between accountability and independence vary across members and over time. Lawmakers’ attention to the Fed rises and falls with the state of the economy, a dynamic driven by lawmakers’ electoral and partisan incentives. The notion that monetary policy should be divorced from politics is especially hard to sustain in times of economic and financial crisis when monetary policy plays a central role in rebooting the economy. Higher rates of unemployment in particular attract the attention of lawmakers, historically more so Democrats than Republicans. Legislators then propose changes to the Federal Reserve Act to rein in the Fed’s powers or to alter its governance structure or transparency rules. Only in the past decade, and especially in the aftermath of the Great Recession, have both Democratic and Republican lawmakers squarely focused their ire on the Fed.

How does the Fed react to counter-cyclical congressional interest? At least anecdotally, central bankers worry about potential congressional reactions to their monetary policy choices. Consider for example the concerns noted in October 2006 by then-president of the Federal Reserve Bank of Chicago, Michael Moskow, when the FOMC discussed whether to adopt a numerical inflation target (FOMC 2006, 131):

For me the biggest issue is the dual mandate responsibility and our relationship to the Congress. Clearly, a persuasive case must be made that we will continue to fulfill our dual mandate responsibilities. The challenge is how to make an explicit numerical specification of price stability operationally compliant with the dual mandate, and to do

so, we need to clarify the flexibility of the time period for bringing inflation back to its target, as [Federal Reserve Bank of Richmond president] Jeff [Lacker] just talked about. The amount of time to do this would depend on the size of the current inflation deviation and the deviations from maximum sustainable growth and employment. So I think the intermediate step of explaining longer-term forecasts would help us learn how to communicate these difficult dual mandate issues more effectively.

Governor Frederic Mishkin picked up on Moskow's concerns, warning FOMC colleagues not "to get too far ahead of the Congress on this" (FOMC 2006, 138). As Cathy Minehan, then president of the Federal Reserve Bank of Boston, put it, "we do need to consider the likely interaction with the Congress as we set a target for one of our goals but not another... What else might that interaction with the Congress provoke? The possibility for unintended consequences is clear" (FOMC 2006, 153). Two years later, then Fed vice chair Donald Kohn voiced a similar concern about adopting an inflation target without consulting first with Congress: "Having an inflation target won't have any effect if it is repudiated by the Congress. As soon as we make it, it could have a negative effect (FOMC 2008, 68).

We also have at least anecdotal evidence that the threat of transparency can make central bankers more cautious in making policy. Consider the perspective offered by the president of the St. Louis Federal Reserve Bank, William Poole, in September 2007 during a meeting of the Federal Open Market Committee. In discussing potential moves by the Fed to increase liquidity in the financial system, Poole encouraged his FOMC colleagues to think carefully about how lawmakers might perceive the beneficiaries of emergency lending:

"...I just say that I think there's a transparency issue here that might have to be explained... There is certainly a risk that this facility will not be ... available to small banks, and the large banks would be getting access to discount window funds at a rate potentially well below that available to small banks. If this were to become a political controversy with some of those who are less friendly to us in the Congress than others, it would complicate the value of this." (FOMC 2007).

Such debate during the crafting of monetary policy, especially in the midst of a financial crisis, raises the possibility that imposing more accountability offers Congress an avenue for indirectly influencing the Fed's policy choices. Concern about how a program will be viewed seems to generate a moment's pause amongst the Fed's ostensibly independent central bankers. Granted, it is hard to generalize from a single instance. But recent imposition of new transparency rules-- and the Fed's concerted opposition to them—suggests that increased accountability forces the Fed to take greater stock of congressional preferences in making policy.

More generally, such comments-- embargoed for five years—suggest that central bankers worry about legislative reaction (even during robust economic times). The Fed eventually adopted an inflation target in 2012 without formal congressional consent, having previously considered ways to communicate policy choices to lawmakers that would keep legislative opposition at bay. In the words of Janet Yellen (then president of the Federal Reserve Bank of San Francisco), the Fed was seeking to not “cause [the FOMC] to respond more strongly to inflation and less strongly to unemployment” (FOMC October 2006), a move that would have challenged congressional objectives established in the Fed's dual mandate. The furor against the Fed in the wake of the financial crisis and Congress's subsequent imposition of more transparency rules suggests that the Fed pays a cost for failing to anticipate Congress's views. Still, perhaps no amount of consultation can forestall legislative action when lawmakers' electoral motives are at play.

Indeed, as we observed above, Democrats were able to secure a set of reforms in the Dodd-Frank Act in 2010 that partially clipped the Fed's wings (even while endowing the Fed with new supervisory responsibilities for the health of the financial system). Granted, Democrats had a near filibuster proof majority in that Congress and controlled the White House, reducing

their need for GOP votes to enact Dodd-Frank. Still, the enactment of significant reforms in a period of persistent gridlock likely signaled to the Fed that public and congressional anger was sufficient to mobilize a coalition to limit Fed autonomy. Politicians' attention to the Fed only rarely yields legislative action. But the Fed seems attuned to the threats it receives from the Hill. Congressional attention to the Fed may be episodic and politically motivated. But as Stiglitz (1998) argues, macroeconomic decisions "are...among the most important of the collective decisions made by any society." Even imperfect congressional attention can provide a means of bringing democratic values to bear on the making of monetary policy.

References

- Adler, E. Scott and John Wilkerson. 1947-2008. *Congressional Bills Project*. National Science Foundation, 00880066 and 00880061.
- Alesina, Alberto and Lawrence H. Summers. 1993. "Central Bank Independence and Macroeconomic Performance: Some Comparative Evidence," *Journal of Money, Credit and Banking* 25(2):151-162.
- Andrews, Edmund L. 2009. "Senator Moves to Hold Up Bernanke Confirmation," *New York Times*, December 2. <http://www.nytimes.com/2009/12/03/business/03fed.html> [Accessed January 20, 2015], p. B1.
- Bernanke, Ben. 2014. Interview with authors, June 13. The Brookings Institution.
- Brookings Institution. 2014. "Central Banking after the Great Recession: Lessons Learned and Challenges Ahead." Uncorrected transcript. <http://www.brookings.edu/events/2014/01/16-central-banking-after-the-great-recession-bernanke> [Accessed January 26, 2015].
- Bureau of Labor Statistics. 2014. "Labor Force Statistics from the Current Population Survey." http://data.bls.gov/timeseries/LNU04000000?years_option=all_years&periods_option=specific_periods&periods=Annual+Data
- Committee on Financial Services-Democrats. 2012. Press Release: Barney Frank speaks on the House floor about the bill to audit the Federal Reserve. July 24. <http://democrats.financialservices.house.gov/press/PRArticle.aspx?NewsID=1484>
- Congressional Information Service (CIS). N.d. *Congressional Bills, Resolutions & Laws on Microfiche* (1933-2008). Proquest.
- Evans, Charles. 2012. "Some Thoughts on Global Risks and Monetary Policy." A speech delivered on August 27, 2012, at the Market News International seminar in Hong Kong, China. http://www.chicagofed.org/webpages/publications/speeches/2012/08_27_12_hongkong.cfm
- Federal Open Market Committee (FOMC). 2006, 2007, 2008. Meetings of the Federal Open Market Committee on October 24-25, 2006; September 18, 2007, December 15-16, 2008. Transcripts. <http://www.federalreserve.gov/monetarypolicy/fomchistorical2007.htm>
- Federal Reserve. 2013. "Transcript of Chairman Ben Bernanke's Press Conference, Dec. 18." <http://www.federalreserve.gov/monetarypolicy/fomcpresconf20131218.htm> [Accessed Nov. 15, 2014].
- Fettig, David. 2008. "The History of A Powerful Paragraph." "The Reserve Bank of Minneapolis." http://www.minneapolisfed.org/publications_papers/pub_display.cfm?id=3485

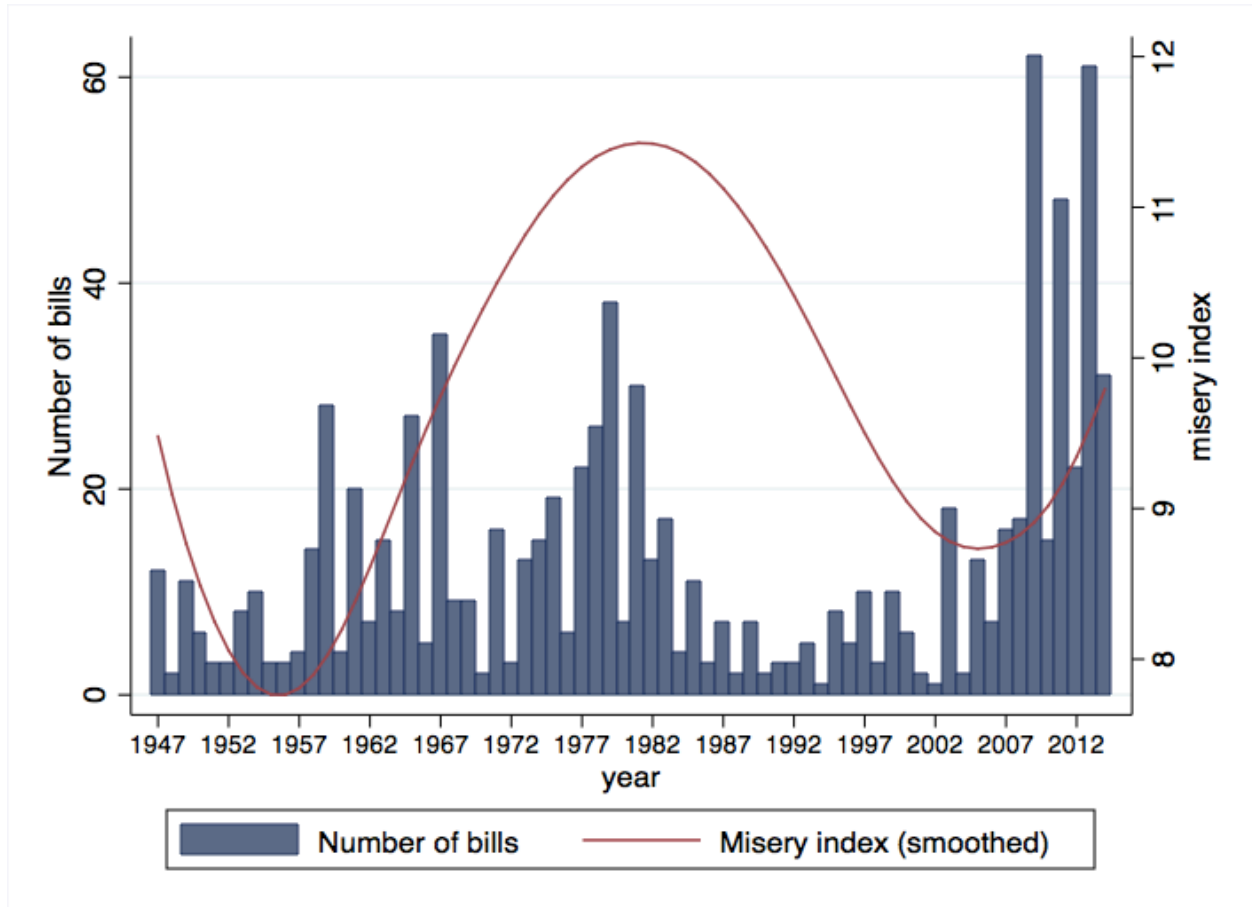
- Greider, William. 1989. *Secrets of the Temple: How the Federal Reserve Runs the Country*. Simon and Schuster.
- Irwin, Neil. 2013. *The Alchemists: Three Central Bankers and a World on Fire*. New York: The Penguin Press.
- Kohn, Donald. 2013. "Federal Reserve Independence in the Aftermath of the Financial Crisis: Should We Be Worried?" Remarks delivered at the National Association for Business Economics, January 4. <http://www.brookings.edu/research/speeches/2013/01/04-fed-reserve-independence-kohn>.
- Krugman, Paul. 2012. "Earth to Bernanke." *New York Times Magazine*, April 24. <http://www.nytimes.com/2012/04/29/magazine/chairman-bernanke-should-listen-to-professor-bernanke.html?ref=magazine> [Accessed January 20, 2015].
- Lacker, Jeffrey M. and John A. Weinberg. 2014. "The Fed's Mortgage Favoritism," *Wall Street Journal*. October 7. <http://www.wsj.com/articles/jeffrey-lacker-and-john-weinberg-the-feds-mortgage-favoritism-1412721776> [Accessed January 19, 2015].
- McMahon, Tim. 2014. "Historical Inflation Rate." http://inflationdata.com/inflation/Inflation_Rate/HistoricalInflation.aspx.
- Menza, Justin. 2012. "With Congress in Gridlock, 'Fed's the Only Game in Town.'" CNBC, July 17. <http://www.cnn.com/id/48210558> [Accessed January 20, 2015].
- Morris, J. Irwin. 2000. *Congress, the President, and the Federal Reserve: The Politics of American Monetary Policymaking*. Ann Arbor: University of Michigan Press.
- "Open Letter to Ben Bernanke." 2010. As reprinted in Real Time Economics blog, Wall Street Journal, November 10. <http://blogs.wsj.com/economics/2010/11/15/open-letter-to-ben-bernanke/> [Accessed January 19, 2015].
- Ponnuru, Ramesh. 2013. "Reaganism After Reagan." *New York Times*. February 17. <http://www.nytimes.com/2013/02/18/opinion/updated-reaganomics.html>
- Schiller, Wendy J. 1995. "Senators as Political Entrepreneurs: Using Bill Sponsorship to Shape Legislative Agendas." *American Journal of Political Science* 39(1):186-203.
- Stiglitz, Joseph. 1998. "Central Banking in a Democratic Society." *De Economist* (146(2):199-226.
- Sulkin, Tracy. 2005. *Issue Politics in Congress*. New York: Cambridge University Press.
- Sulkin, Tracy. 2011. *The Legislative Legacy of Congressional Campaigns*. New York: Cambridge University Press.

Torres, Craig and Scott Lanman. 2010. "Fed Emergency Borrowers Ranged From GE to McDonald's." *Bloomberg News*. December 1. <http://www.bloomberg.com/news/2010-12-01/fed-crisis-borrowers-ranged-from-bank-of-america-to-mcdonald-s.htm>

Volden, Craig, Alan Wiseman, and Dana E. Wittmer. 2013. "When Are Women More Effective Lawmakers Than Men?" *American Journal of Political Science*. 57(2): 326-341.

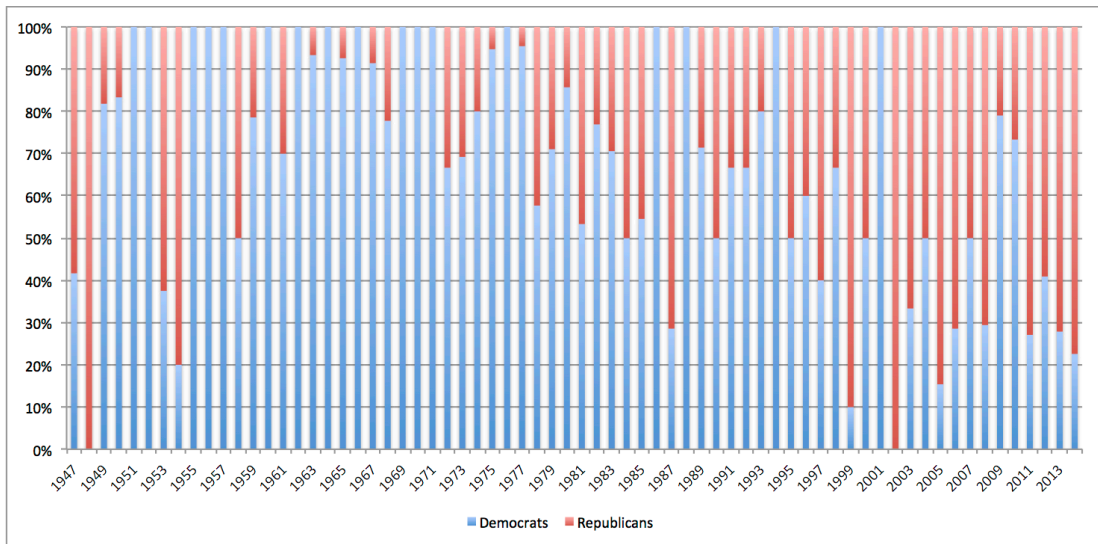
Woolley, John. 1994. "The Politics of Monetary Policy: A Critical Review," in *Journal of Public Policy*, 14(1):57-85.

Figure 1
Congressional attention to the Fed
(Bills sponsored, 1947-2014)



Data source: See text.

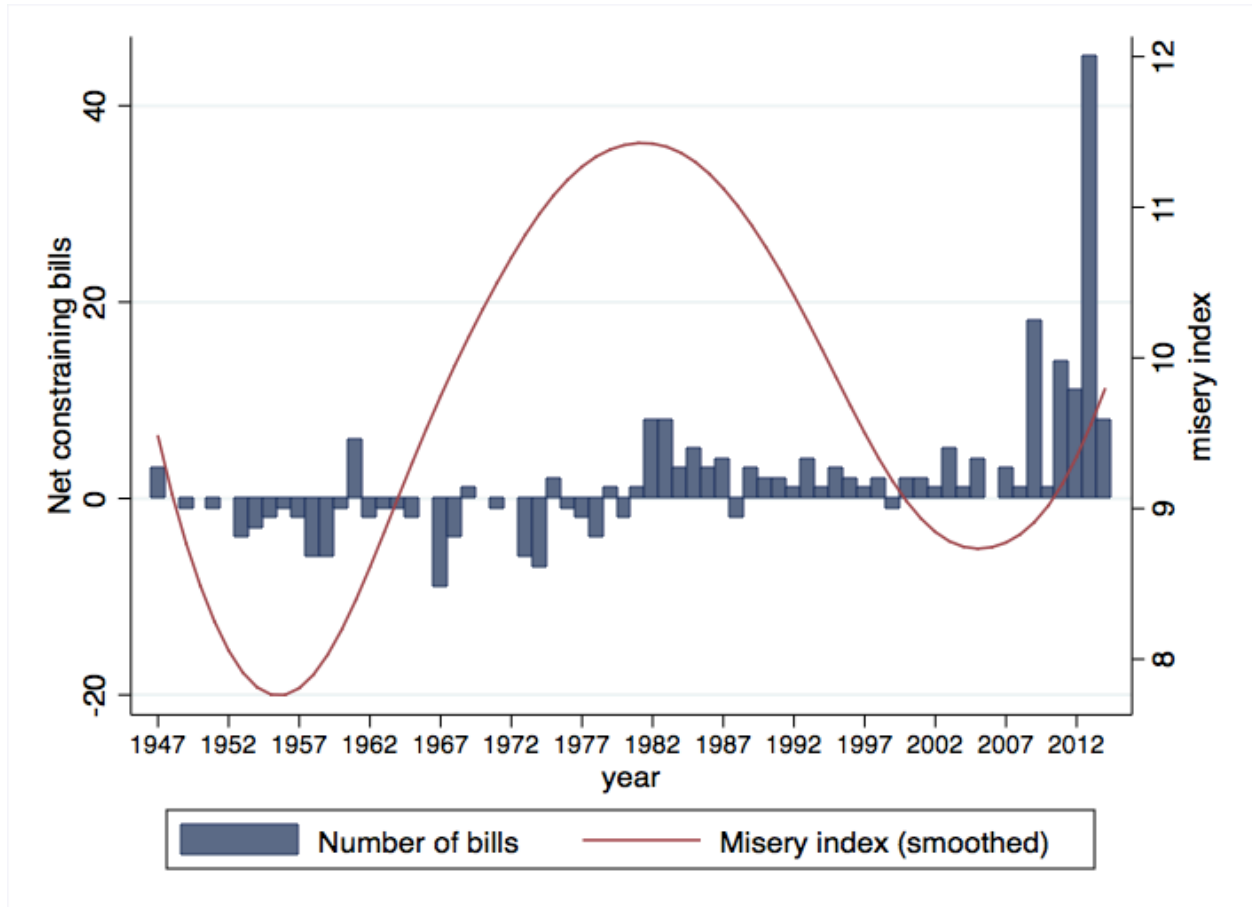
Figure 2
Congressional attention to the Fed, by party
(1947-2014)



Note: Figure shows the relative percentage of Federal Reserve bills introduced each year by Democrats and Republicans.

Data source: See text.

Figure 3
Constraining bias of Congressional bills (1947-2014)



Note: “Net constraint” represents the number of bills constraining the Fed minus the number of bills empowering the Fed.

Data source: See text.

Figure 4
Bills increasing political oversight of the Fed (1947-2014)

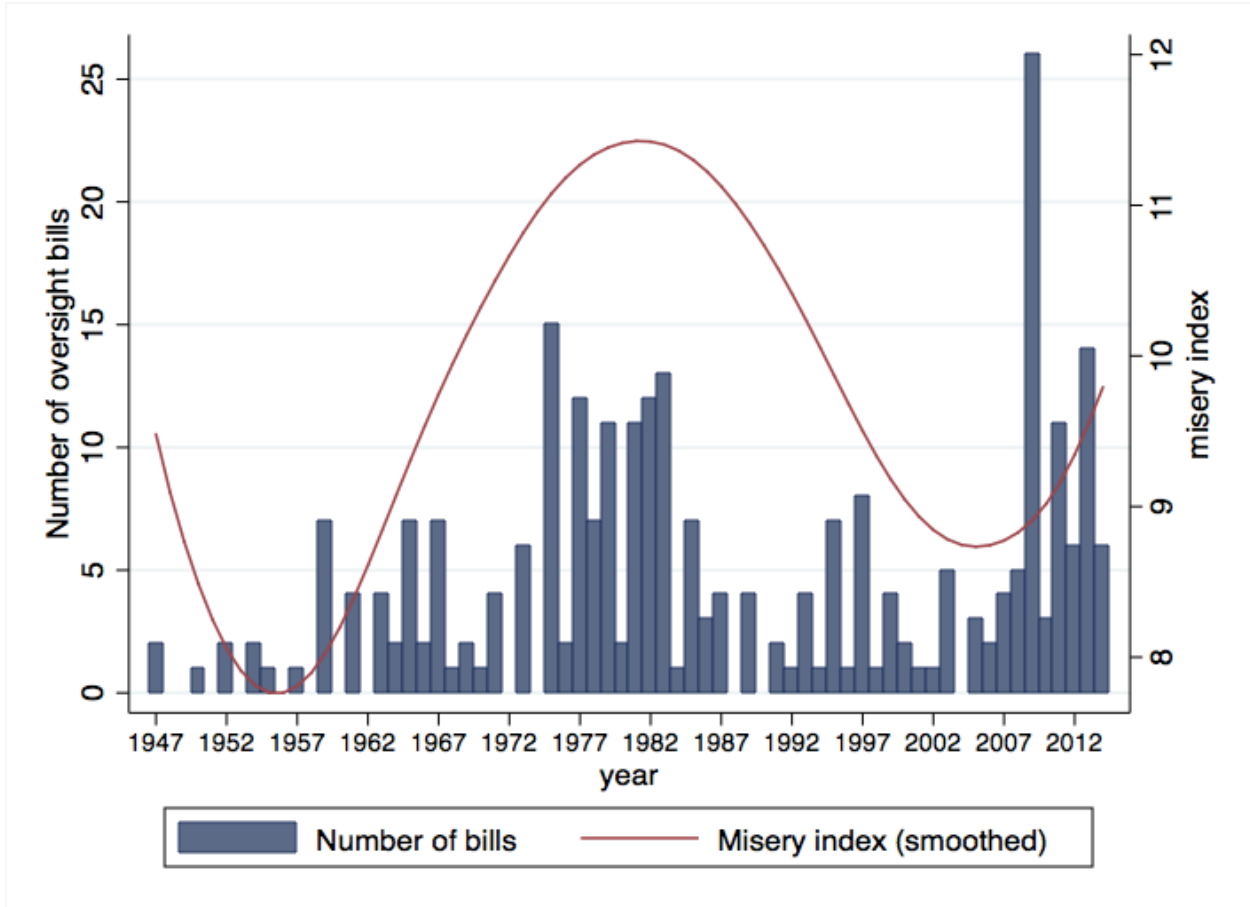


Table 1
Variation in congressional attention to the Fed (1947-2014)

	(1)	(2)	(3)
Independent Variables	Total number of bills	Democratic bill	Republican bills
Inflation rate	0.032 (0.63)	0.059 (1.12)	-0.018 (0.24)
Inflation rate (lagged)	-0.041 (0.74)	-0.026 (0.44)	-0.043 (0.57)
Unemployment rate	0.256 (2.40)*	0.332 (3.04)**	0.235 (1.45)
Unemployment rate (lagged)	0.008 (0.08)	-0.035 (0.33)	-0.034 (0.22)
Dual mandate	-0.137 (0.55)	-0.764 (2.94)**	1.091 (2.84)**
Constant	1.056 (2.48)*	0.574 (1.28)	-0.234 (0.37)
Observations	67	67	67

Notes: Negative binomial regression estimates (generated by Stata 11.2's *nbreg* routine). Absolute value of z-statistics in parentheses. *significant at $p < .05$; ** $p < .01$ (2-tailed tests).

Table 2
Who pays attention to the Fed?
(112th Congress, 2011-2)

Independent Variables	(1) House Democrats	(2) House Republicans	(3) All senators
Freshman	.735 (.57)	.012(.02)	1.022(1.24)
Ideology	-5.999 (3.70) ***	1.922 (1.40)	.998(1.39)
Electoral vulnerability	1.441 (.2.63) **	.028 (.967)	--
Running in 2012	--	--	1.22(1.66)*
District bank in state	.450 (.90)	.177 (.29)	-.148 (.17)
Financial/ Banking panel	1.039 (2.49)**	2.367 (5.20)***	1.367(2.42)**
State unemployment rate	--	--	-.090 (.57)
Constant	-6.381 (5.78)***	-3.813 (5.63)***	-1.989 (1.47)
N	191	238	101
Wald Chi2	19.29**	41.91***	10.52 ^a

Logit estimates (generated by Stata 11.2's *logit* routine). Absolute value of z-statistics in parentheses ^ap< .1, *p<.05, ** p<.01, ***p<.001 (one-tailed tests, except for two-tailed Wald chi2 test).