# Financialization and Federal Reserve Policy in the Crisis

## Central Bank Accountability For Financial Stability and Economic Reconstruction

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### 1. Introduction

Major central banks – notably the Federal Reserve (the Fed), the Bank of England (BOE) and the European Central Bank (ECB)- failed to prevent the financial crisis that is now engulfing the world's economies. Moreover, once the crisis broke out, they were slow to respond and therefore ultimately failed to prevent the crisis from spreading to the real economy. In recent months the BOE and the Fed (and to a much lesser extent, the ECB) have been innovative in their approach to conducting monetary policy and lender of last resort actions, but they have still not adequately confronted the financial and balance sheet carnage left behind by the crisis.

Could these central banks have averted, or substantially reduced the severity of the crisis? More specifically, if central banks had been governed in a more democratically accountable fashion, would they have prevented or reacted more forcefully and effectively to the crisis? Posed this way, this question is almost impossible to answer. For the root causes of the financial crisis are multi-faceted and deep. They reflect failures in the realm of economic theory and practice, in democratic governance – in policies and oversight by parliaments and executive branches – and are not just problems of central bank policy. With such a massive array of failures, how are we to assess changes in the operations of just one set of institutions, important as they are?

But there is a more enlightening way to ask the question. For, in fact, the new monetary consensus and its associated practice in macroeconomic governance, and in particular, its emphasis on central bank independence – are part and parcel of the same systems of thought and actions that led to the crisis. In this system, where financial markets were believed to allocate resources efficiently and »inflation fighting credibility« was king, the key role of central banks were to anchor the commodity price level, avoid time inconsistency and attain a lower NAIRU. To do this, central banks were to have political independence from elected officials and elected officials were to defer to the judgments of central bankers.

Thus, in this system, »central bank independence«, and associated lack of democratic accountability were not just part of an entire apparatus of theory and practice. Central bank independence and insulation from democratic accountability reinforced that practice, strengthened it and protected it. Democratically elected officials in the congress could not exert their oversight roles too strongly because they might interfere with the »independence« of the central bank. Moreover, it was convenient for elected officials not to exert too much oversight, because if something went wrong,





they could then »blame« the independent bank, since its mistakes were the Fed's responsibility, not theirs. This norm of central bank independence and the theory that supported it thus scared off politicians who wanted to exert democratic control and gave political cover to those who did not.

While economists provided the intellectual support for this central bank independence, what provided the political muscle to keep it intact? This blame game just mentioned was part of it. But this game is generally not sufficient, especially in times of economic stress. Milton Friedman, of all people, had it right. In a 1962 essay he wrote that »*Politically independent Central Banks give undue influence to the interests of commercial bankers*« (Friedman 1962). Part of the reason for this is that in democratic societies, central bank »independence« is politically contingent: it can be taken away or greatly curtailed by politicians. As a result, central banks must cultivate and rely on political allies to protect and preserve their political independence from governments (Epstein 1982). And, their most natural allies are the bankers: they regulate them, they interact with them on a daily basis, they can trade favors with them, and they often share the same outlook. There are plenty of historical examples in which central bankers rally the support of their financial allies to enhance, protect and preserve their political independence (see for example, our discussion of the Federal Reserve – Treasury Accord of 1951: Epstein/Schor 1995). In short, there is no such thing as »central bank independence«. Maintaining central bank independence from elected officials requires the central bank to become dependent on political allies, which are often financial institutions.

So, how should we think of the role played by central bank accountability in the lead up to and the solution to the economic crisis? Establishing more norms of democratic accountability of central banks would have been extremely helpful as part of a larger set of reforms. It would have placed more responsibility in the elected officials' hands for a range of monetary and financial policy issues, allowed more of them to take an oversight role and prodded others to stop »passing the buck« to the Fed, and in the cases of the UK and Europe, to their central banks.

Of more interest is a consideration of the role of central bank accountability moving forward. While more central bank accountability will not be sufficient to get us out of the crisis or to promote economic reconstruction, it will be extremely helpful, if not necessary to do so. As the Fed and other central banks get more involved with credit easing (CE) or quantitative easing (QE), major bank rescue operations, decisions to allocate large quantities of public funds as well as manage large financial institutions, and engage in operations to support fiscal policy, the arguments for more coordination with treasuries and more tax-payer and public accountability, become overwhelming. Indeed, a recent Federal Reserve – Treasury Accord recognizes this, to some extent (Federal Reserve/Treasury 2009). But this accord is too vague with too many loopholes to guide actual practice. In addition, these issues become especially important in view of proposals to create one overarching financial regulator, possibly giving the Federal Reserve that role.

The rest of the paper is organized as follows. The next section briefly describes flaws in the management of the crisis by central banks, briefly discussing why central banks made significant mistakes and where more central bank accountability would have contributed to better policy. Section III tackles policy issues moving forward, making a case for more central bank accountability. In both of these sections, I will

mostly discuss the Fed, but will ask make some references to other key central banks, notably the BOE and ECB. In section IV, I present some proposals for institutional changes to promote more Federal Reserve accountability in the future. Section V summarizes and concludes.

## 2. Central Bank Failures Before and During the Financial Crisis: The Role of Central Bank Independence

Why, did the lender of last resort function fail in the crisis of 2007–2009, and could more accountability have helped?[2] I believe the key reason for the failure is this: the Federal Reserve (Fed), the Bank of England (BOE), the Financial Services Authority (FSA) and other financial authorities had allowed the financial system to get so complex and so opaque, that the authorities undermined their own ability to implement the lender of last resort function. That is, the financial authorities allowed the financial institutions to become too big too fail, but too complex and opaque to save.

This problem did not arise overnight. We reached this point as a result of a forty year dynamic of financial de-regulation, financial expansion, crash and then, government bailout. Following each major crisis and bailout, financial de-regulation was expanded and the cycle began anew but at a higher level of size and complexity. The crash of 2007–2009 was simply a continuation of this dynamic. But this time, the system had gotten so large and so complex that the bail-out could not work. (Crotty/Epstein 2009b)

Fostering this cycle of financial liberalization and bail-out was the ultimate »policy mistake« that led to the crisis. But many other problems beset the attempts to deal with the crisis once it broke out. Specifically, with ample support of the economics profession, the financial authorities made four fatal mistakes in dealing with the crisis: commodity inflation obsession; the surrender to fiscal policy straight jackets; ignorance of the functioning of the financial structure including the role of toxic products; a fatal over-commitment to the prerogatives of private finance and financiers along with an associated allergy to increasing the role and power of the state.

### Would More Accountability Have Helped to Prevent the Crisis or Have Ameliorated its Severity?

I have identified four key problems: first, there was too much focus by the Fed on inflation fighting early on and insufficient focus on fighting the gathering deflationary forces; second, was the Fed's unwillingness to promote and enforce financial regulations which allowed the financial system to become too complex and opaque for the Fed to manage or save; and third, as a related matter, the Fed has paid too much deference to the interests and prerogatives of the financial sector which both reduced the Fed's willingness and ability to regulate the system and which also hampered its ability to resolve the massive banking problems that have resulted. Fourth was the fiscal policy straight jackets placed on Macroeconomics policy making. Because of lack of space, I will not discuss the fiscal policy issue.

First, would more accountability have reduced the inflation obsession of the Fed and led it to pursue expansionary policy more aggressively, earlier? We have some indirect, comparative evidence that bears on this issue. As Crotty and Epstein show, the ECB has been even less aggressive and effective in combating the crisis that has





the Fed (Crotty/Epstein 2009b). This partly stems from the fact that the ECB is far more strictly oriented to »inflation targeting« than is the Fed, and that it is more politically independent. As a result, it is under less pressure to adopt expansionary policy than the Fed has been. As a result, one might infer that in an economic and financial crisis like the one we are experiencing, more accountability would have led to a more aggressive stance earlier on the part of the Fed as well. In this case, Bernanke may have felt less pressure to establish his »inflation fighting« credentials on taking over as Chair of the Board of Governors, and more immediate pressure to confront the financial crisis head on.

Second, would more accountability have led to more serious enforcement and advocacy of more effective financial regulations by the Fed, thereby leading to more financial stability and more effective lender of last resort actions? This is closely related to the third issue: would more accountability have reduced the central banks' deference to financial interests and thereby made its interventions more effective?

For the reasons described earlier about the nature of »contingent« central bank independence in a democracy, and the connections forged between central banks and the financial industry in this context, we can say that have a more accountable central bank would loosen these bonds and make it more likely that the Fed would buck the pressures coming from finance and be more likely to engage in stricter oversight and promote better regulation. This seems to be more likely to be true in the case of more congressional accountability and more regional accountability, because it creates a more dispersed and multi-faceted set of interests and points of access. Simply making the Fed more under the control of the Treasury Department is unlikely to enhance, in general, the Fed's regulatory powers. The Treasury has also developed into a strong advocate of financial interests, where as a more democratically and empowered regional system, and stronger accountability mechanisms by Congress would be more likely to counter these forces.

For this kind of accountability by Congress to have worked, the »presumption of Federal Reserve Independence« would have to have been strongly curtailed or eliminated. Congress would have had to have the tools to receive timely and detailed reports on regulatory matters and must establish mechanisms to ascertain that regulatory policies are being properly enforced.

This deference to the power of finance became especially important in the nature of the lender of last resort bail-outs that occurred and the proposals for dealing with bank balance sheets that have resulted since then. The bail-out of AIG for example, in which billions of dollars were paid to banks in Europe and the U.S. but were kept hidden under presumptions of Federal Reserve secrecy, could not have occurred behind the cloak of secrecy had they been done in a more accountable central bank. Even with so-called accountability, of course, problems arise, as has been apparent with the lack of transparency in the TARP operations. But at least here, there is oversight established by Congress which does not exist to the same extent with respect to operations under the cover of Federal Reserve secrecy. The need for transparency and accountability of these operations becomes even more important moving forward.

Still, the ultimate problem is the financial power of finance. As the report: *»Sold-Out: How Wall Street and Washington Betrayed America«* (Essential Information/Consumer Education Foundation, 2009 www.wallstreetwatch.org) showed, the financial industry spent over 5 billion dollars over ten years in campaign contributions

and lobbying fees to influence members of congress and the executive branches of both major parties, in order to get the financial de-regulation they wanted, and which ultimately brought down the financial system. Unless there is a major reform to reduce the influence of this kind of money, then wherever the accountability is lodged in the political system, this kind of money will attempt to buy and undermine it.

### 3. Financialization and Federal Reserve Accountability In the Future

While there is evidence that more accountability of the right types, in combination with other changes, would have reduced the likelihood of the massive economic crisis that did occur, we can be even more confident of the need for and desirability of substantially more accountability moving forward. This is because:

1) The Federal Reserve (and other central banks) will continue to be extensively involved with bank restructuring operations, placing at risk billions of tax payer dollars, and significantly intervening in/managing the operations of financial institutions.
2) The Federal Reserve's monetary policy, as it operates around the zero bound and is engaged in credit easing (CE) operations will be making multiple credit decisions affecting particular securities, particular institutions, and particular markets.[3]
3) The Federal Reserve's CE operations are designed to support a number of government goals in reviving the economy, including supporting fiscal policy by, among other policies, conducting open market operations in long dated treasuries. In such circumstances, close cooperation and coordination between the Federal Reserve and the Treasury is not only desirable but also necessary.
4) A number of the large, unorthodox operations undertaken by the Fed involve credit risks for the Fed, and therefore to the public. The Fed has received lines of credit from and guarantees from the Treasury for some of these credit risks (see Bernanke 2009). In these circumstances, the Fed must be held accountable to tax payers for these operations.

Many of these issues have come to a head in the development of the new financial rescue package, the so-called PPIP program. This program uses substantial resources from the Federal Reserve and the FDIC to finance and guarantee private acquisition of bank »legacy« assets. It is commonly understood that the government is using this approach to avoid having to go to Congress to get billions of more direct taxpayer dollars to underwrite the program. In this situation, lack of accountability on the part of the Fed allows the executive branch to operate a »shadow financial system« reminiscent of the shadow financial system that got the economy into this mess in the first place. In this new world of massive credit intervention to attempt to save and resurrect the financial system, there are multiple dangers of accountability:

1) That the Federal Reserve will be insufficiently cooperative with the fiscal authorities to engage in the actions that need to be undertaken.
2) There is a danger that the Fed will be sufficiently cooperative, BUT that the executive branch will be able to use the relatively unaccountable Fed to make its actions less accountable to Congress.

Both of these dangers must be avoided. The way to do this, as we argue below, is to enhance the accountability of the Fed not just to the executive branch, but also to the Congress and the public at large.





In recent months the Federal Reserve and the Treasury department signed a new »accord«, intended to apply during this period of »financial exigency« in which the Federal Reserve agreed that it must coordinate credit policies carefully with the Treasury, while maintaining its independence with respect to monetary policy. Following the Great Depression of the 1930's, the Federal Reserve, Bank of England and other central banks lost their previous levels of central bank independence and became, to a lesser or greater extent, arms of Treasury departments as they attempted to manage the finances of war and recovery. Previously proud and independent central bankers chafed at their subservient political positions.[4] The Fed, Bank of England and other central banks waged campaigns with the help of their political allies following WWII in order to re-establish their political independence. Naturally, the Fed is now anxious to maintain its independence and loathe to return to its position after the depression and before 1951.The following paragraph underline's the Fed's insistence on it »independence« with respect to monetary policy, even in these times of economic crisis:

> *»While the Federal Reserve has traditionally collaborated with other agencies in efforts to preserve financial stability, it alone is responsible for maintaining monetary stability…The Federal Reserve's independence with regard to monetary policy is critical for ensuring that monetary policy decisions are made with regard only to the long-term economic welfare of the nation.«*
>
> (Federal Reserve/Treasury Joint Statement 2009)

At the same time, the Fed and Treasury agree that the massive credit operations conducted by the Fed increase the need for Federal Reserve cooperation with the Treasury. In outlining this »Accord II« the Fed and the Treasury agreed on the following broad points:

> *»1. Treasury-Federal Reserve cooperation in improving the functioning of credit markets and fostering financial stability. The Federal Reserve's expertise and powers are indispensable for preventing and managing financial crises … As long as unusual and exigent circumstances persist, the Federal Reserve will continue to use all its tools working closely and cooperatively with the Treasury and other agencies as needed to improve the functioning of credit markets, help prevent the failure of institutions that could cause systemic damage, and to foster the stabilization and repair of the financial system.*
>
> *2. The Federal Reserve to avoid credit risk and credit allocation … Actions taken by the Federal Reserve should also aim to improve financial or credit conditions broadly, not to allocate credit to narrowly-defined sectors or classes of borrowers. Government decisions to influence the allocation of credit are the province of the fiscal authorities. (emphasis added)*
>
> *3. Need to preserve monetary stability Actions that the Federal Reserve takes, during this period of unusual and exigent circumstances, in the pursuit of financial stability, such as loans or securities purchases that influence the size of its balance sheet, must not constrain the exercise of monetary policy as needed to foster maximum sustainable employment and price stability.«*

In addition, the Fed, clearly uncomfortable with the massive role it has played in bailing out institutions such as AIG, and concerned about the credit risks such bail-outs

imply, worked to get a commitment from the Treasury Department to buy this assets from the Fed's balance sheet.

What are we to make of this agreement? On the one hand, it recognizes that the new responsibilities undertaken by the Fed implies the need for much broader accountability and coordination with the government, and in particular the executive branch, through the Treasury Department. On the other hand, it attempts to create a clear line –which is almost certainly not supportable – the Federal Reserve does not engage in credit allocation policies, does not put at risk tax payers money, and can separate its monetary policies from its credit policies. The Fed and the Treasury attempt to draw these distinctions in order to protect the Federal Reserve's independent political structure to the greatest extent possible and avoid the trap of the 1930's and 1940's.

The agreement is quite vague with respect to how the Federal Reserve's cooperation will be gauged and monitored. Despite these assurances of cooperation with respect to credit policy (if not monetary policy), it is important to note that there is nothing in the agreement that:

1) Enhances Congressional authority to oversee the massive layouts of credit
2) That holds the Regional Reserve Banks more accountable, despite the fact that, among other things, they make decisions about broader collateral that is accepted at the discount window and other new and expanded credit operations.
3) That enhances the transparency and accountability of operations connected with the newly proposed PPIP operations, in which loans from the Federal Reserve will be significantly involved.

With respect to monetary policy, the agreement is equally problematic. It implies that the Fed can separate monetary policy from credit policy, but does not specify how this can be done. For as long as the Fed has committed to keeping interest rates near the zero bound, and is committed to supporting the government's recovery policy, then it is unlikely it can operate an independent monetary policy. Hence the agreement on monetary policy is primarily forward looking.

The Federal Reserve-Treasury Accord II is designed to keep the Fed free to raise interest rates in the future when the current economic emergency ends, so that it does not have to negotiate a new accord, as it did in 1951. With respect to monetary policy, then, there is no change in structural accountability. Instead, the Federal Reserve's goal is to preserve the possibility of hitting the restart button when the economic crisis is resolved, and return to the structure of independence that prevailed before the crisis.

Rather than hit the restart button with respect to monetary policy, or base Federal Reserve accountability on credit policy with a vague accord with the Treasury Department in which Congress played no obvious role, we should instead use this opportunity of obvious need for cooperation and coordination and obvious tax payer risks to advance a genuine agenda for enhancing Federal Reserve Accountability both with respect to monetary policy and credit policy.

## 4. An Agenda for Enhanced Federal Reserve Accountability

The arguments for more central bank accountability implicit in the foregoing are:

1) Principles driven: in a democracy, public decisions should be based on principles of equal representation of interest. This principle fails with respect to independent central banks which are not accountable to a broad swath of the public.





2) Utilitarian driven: independent central banks tend to make policies that are biased toward a subset of the economy rather than in the interests of the economy as a whole.

On the other side, arguing for some insulation from day to day politics, there are issues of expertise, and checks and balances that are also important. These can be addressed by limiting inappropriate partisan impacts and insuring that those conducting monetary policy have appropriate expertise, while encouraging longer run considerations in macroeconomic policy making (along with appropriate short-term considerations). While it is not easy to design macro institutional frameworks to balance these various concerns, it is no solution to implement excessive »central bank independence« based on flawed macroeconomic theory as has become the common practice.

### 4.1 Models of Federal Reserve Accountability

There are three broad models of increased Federal Reserve accountability that have been proposed and garnered support over time. The first model is more decentralized and citizen level control; the second is increased congressional control; and the third emphasizes increased executive branch control over the Federal Reserve. The first, the decentralized approach builds on the regional structure that already exists in the Federal Reserve System (see Pollin 1993 and Schlesinger 2004). Pollin suggests, for example, that the regional banks be given more powers and that the boards of these banks be elected by those living in each bank's district. The second model would improve Congressional control over the Federal Reserve. A number of suggestions have been made along these lines (Schlesinger 2004; Galbraith 1993), including placing the Federal Reserve's budget under the normal budgetary process, whereas now it is not subject to direct congressional oversight. Some would also make the Regional Reserve Bank Presidents subject to the same nomination approval processes as other federal officials. The third approach would be to give the executive branch more influence over the Federal Reserve. This could involve a variety of changes; including making the Fed much more subject to the control of the Treasury Department as it was during the Second World War, and/or making the appointment term of the Fed chairman coterminous with that of the President.

Most of these approaches would also entail ending the odd structure under which the Fed is officially »owned« by the commercial banks operating in the regional bank districts. This »private ownership« creates a number of legal anomalies and also feeds »conspiracy« theories about private banker control of the Federal Reserve. Under these schemes, publicly owned stock would replace the stock of the commercial banks, effectively »nationalizing« the Regional Banks.

### 4.2 Enhancing Federal Reserve Accountability

Which of these models should be followed to increase Federal Reserve accountability? Rather than picking one of these models, I argue that the key is to enhance the accountability of the Fed not just to the executive branch, but also to the Congress and the public-at-large**.** This will make Federal Reserve monetary and credit policy more responsive to the needs of the public at large, create checks and balances between the executive branch and congress, while preserving enough independence to enhance expertise and longer term perspective.

Here some basic suggestions for reforming Federal Reserve governance that can improve accountability and performance as we attempt to resolve this crisis, promote economic recovery and restructure the financial regulatory system. (Schlesinger 2001, 2004; Pollin 1993; Grabel 1989; Galbraith 1993; Kuttner 2009).

#### 4.2.1 Enhance Democratic Control of the Regional Reserve Banks

As Tom Schlesinger has pointed out, the Fed is unique in its governance structure among central banks as well as within American government itself.

> »*Alone among a huge array of agencies, commissions and government corporations, the Fed combines a broad economic-management mandate with a public-private structure that reserves ownership and governance rights to a single segment of the private sector while allowing individuals who aren't public officials to create government policy.*« (Schlesinger 2001)

This system thus contains a number of anomalies and governance problems. For example, the Fed has key exemptions from the Freedom of Information Act and Sunshine Laws. There are restrictions on GAO audits of monetary policy operations. It has special treatment under the Federal Advisory Committee Act – shared only by the CIA – that permits the Board's banking industry advisory group to meet with it behind closed doors and withhold records of sessions. It has an Inspector General who serves at the pleasure of the Fed Chair, rather than being appointed by the President of the United States as is the case with the rest of the government.[5]

There have been numerous proposals and attempts over the years to alter this system – all without success. Many reformers have tried to make the Reserve Bank Presidents public officials, or to remove them from the FOMC all together. Chairman Marriner Eccles in the 1935 and House Banking Committee Chairman Wright Patman, among others, tried to alter the public private character of the Fed more directly. For example, the Commission on Money and Credit – organized by the Committee for Economic Development (CED) and financed by the Ford Foundation focused on »*expanding the degree of independence of the Federal Reserve from the banking community which it both serves and regulates*« (quoted in Schlesinger, 2001).

> »*The report recommended retiring member banks' stock in the Reserve Banks, eliminating the FOMC, replacing the Board's banking industry advisory council with a more broadly constituted group, and relegating the Bank presidents to a consultative role at the Board of Governors*«. (Schlesinger 2001)

These recommendations of the Commission on Money and Credit are worthy of revisiting and should be strongly considered today. Progressive critics have argued against eviscerating the role of the regional banks, however, on grounds of maintaining more de-centralized power and broader representation in the system. Schlesinger advocates using Section 11 of the Federal Reserve Act to retire the commercial banks stock and then issue »*a single share of a new class of stock to every eligible voter in their districts…. Like the stock currently held by member banks, these would be non-marketable …*«. (but would entitle the holder to elect directors of the district Bank).

This is consistent with Pollin's proposal for citizen election of Federal Reserve Bank officials (see Pollin 1993). Of course there are many details to work out, but the point would be to enhance democratic control over the regional banks as a way of enhancing





democratic control over the Fed as whole (see Schlesinger 2001 and Pollin 1993 for more details on their proposals; see Kuttner 2009, for a recent discussion of this issue).

#### 4.2.2 Clarify The Fed's Agency Status

As discussed above, the agency status is the Fed is murky. Altering the banker stock ownership of the regional banks, as discussed in point 1, would help to rectify this.

In addition, a straightforward change of its statutory basis is also needed. Therefore: To bolster accountability, the central bank's agency status could be clarified. Section 1 of the Federal Reserve Act might be changed to clearly designate the Board, the Banks and the FOMC collectively as an independent agency within the executive branch, thereby placing the central bank within the ambit of laws and regulations that currently exempt or do not specifically cover it (Schlesinger 2004).

#### 4.2.3 Increase Accountability to Congress and the Public

Clarifying the Fed's agency status, as in 2 above, would facilitate and even imply many of these points here (Schlesinger, 2001; 2004).

Federal Reserve Budget Appropriation: The Federal Reserve's Budget Should be Appropriated through the normal budget appropriations mechanisms.

Audits: The General Accountability Office should have Authority to Audit every aspect of Federal Reserve operations without exception.

Inspector General: Consistent with the practice at other federal agencies, the Fed's inspector general should be appointed by the President and confirmed by the Senate, rather than serving at the pleasure of the central bank's chairman.

#### 4.2.4 Enhance Accountability to the Executive Branch

Terms of the Appointments of top Fed Officials: The term of the Chairman and Vice-chairman of the Board of governors should expire within six months of Presidential election, so that Fed Officials and the President may serve on roughly coterminous basis. These or similar proposals, fully fleshed out and developed, would go a long way to both enhancing Federal Reserve accountability and, most likely, improve the quality of monetary and financial policy as well.

## 5. Conclusion

We cannot say with certain whether more central bank accountability would have greatly reduced the likelihood of the massive economic crisis we are now experiencing, but there are strong reasons to believe that, along with other important reforms, it would have significantly helped. Moving forward, as the Fed and other central banks become more deeply involved in financial market and institution rescue operations, credit policy and financial regulation and reform, more democratic accountability is essential, both on grounds of democratic procedures and on grounds of improving the over-all quality of monetary and financial policy. In this paper, I have outlined some proposals for enhancing both the accountability and quality of Federal Reserve policy. These suggestions draw on the work of many policy makers and economists over a number of years. We would be well served by revisiting this work in detailed fashion, and establishing a Congressional commission to evaluate, to develop and to propose reforms such as these.

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## Notes

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2 This section draws on Crotty/Epstein, 2009b.
3 See Bernanke, 2009, for a discussion of CE operations, and his concern NOT to engage in credit allocation operations. However, these will be virtually inevitable given the nature and scale of the credit easing programs.
4 Montagu Norman, the Governor of the Bank of England during most of the war, wrote New York Federal Reserve President Alan Sproul that he had been reduced to being a »bonds salesman«. (Letter from Montagu Norman to Alan Sproul, New York Federal Reserve Archives, reported in Epstein and Schor, 1995).
5 Schlesinger notes that: »Not coincidentally, the central bank's agency status remains uniquely murky. While the Board of Governors is clearly a part of the federal government – and designated as a federal executive agency in the Federal Tort Claims Act – it is either exempted from or not specifically covered by important statutes like the Civil Rights Act of 1964 and the Federal Labor Relations Act.« (Schlesinger, 2004).