



Accountability and Governance

by:

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Under the Federal Reserve Act of 1913, the Federal Reserve structure incorporates elements of the public and private sector in a design reflective of the value Americans place on the importance of checks and balances.

A Critical Balance of Power

Congress created the Federal Reserve with a governance structure that places the central bank firmly under government oversight, but with protections designed to mitigate the risk of political manipulation. This resulting system engages the private sector to act as a partial check against the abuse of central bank policies for solely political purposes.

The 12 regional Federal Reserve Banks are sometimes referred to as the operating arms of the nation's central bank. The Board of Governors, a government agency based in Washington, D.C. is a governmental agency with broad oversight for the entire Federal Reserve System, while each of the 12 regional Reserve Banks operate under the control of a local board of directors composed of individuals engaged in community development, business, banking and labor.

The design engages a broad spectrum of individuals from across the nation in oversight of the nation's central bank and creates a forum for contributions to the Fed's policy deliberations. As designed, it was also intended in part to prevent too close of a connection between our nation's fiscal policies, as directed by the administration and Congress, and monetary policies, directed by the central bank.

You can learn more about the structure in my paper **[“Structure, Governance, Representation: Federal Reserve Member Banks and Federal Reserve Bank Stock.”](#)** This document was prepared at a time when there were a couple of different initiatives underway related to the role of bankers in the Fed's structure. In addition to a Government Accountability Office (GAO) review about the requirement that member banks hold stock in their regional Reserve Bank, there had also been an unprecedented decision by Congress to divert some of the Federal Reserve dividends as a funding source for the Fixing American's Surface Transportation (FAST) Act. While these events occurred a few years ago, the involvement of banks within the Fed's structure is an issue that can be poorly understood and something that has emerged over time as a point of contention by the Fed's critics. This paper explains the history of the Fed's structure and provides insight on the role of important role of America's banks within it.

Related Research

- [See historical publications from the Kansas City Fed.](#)
 - [Learn more about the Federal Reserve's structure with frequently asked questions and answers.](#)
 - The Federal Reserve System's decentralized structure is designed to ensure representation and operational effectiveness. [Learn about the System Structure.](#)
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