

Statement of
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before the
House Subcommittee on Monetary Policy and Trade
United States House of Representatives

Sept. 7, 2016

The views expressed by the author are her own and do not necessarily reflect those of the Federal Reserve System, its governors, officers or representatives.

Chairman Huizenga, Ranking Member Moore and members of the subcommittee, thank you for this opportunity to share my views on the role of regional Federal Reserve Banks as part of the Federal Reserve System.

Because the Federal Reserve is an institution that makes decisions of consequence to the broad public, a discussion of these matters is worthwhile. If changes are to be considered, the public should understand not only the Congressional intent for its current design, but also the strong safeguards that assure its accountability.

Central banks are unique institutions. They have important responsibilities for a nation's financial system and economy. Congress, as it contemplated a central bank for the United States more than 100 years ago, took note of central bank models from other countries, while keeping in mind two earlier attempts at central banking in the United States. Ultimately, it opted for a different approach: one that recognized the public's distrust of concentrated power and greater confidence in decentralized institutions. The Federal Reserve's unique public/private structure reflects these strongly-held views and is designed to provide a system of checks and balances. Challenges to this public/private design have surfaced throughout the Federal Reserve's history, not unlike they have today. But in the end, our country has remained most confident in this decentralized governance structure.

Criticism of the quasi-private nature of the regional Reserve Banks was anticipated from the start. Indeed, the Federal Reserve Act leaves no unchecked power in Reserve Banks. The politically-appointed members of the Board of Governors have oversight authority of the most important governance aspects of Reserve Banks. For example, they appoint the Chair and Deputy Chair of a Reserve Bank's board; they vote to approve the selection of the Bank's president as well as its chief operating officer; and they approve the Reserve Bank's budget and

salaries. The Board of Governors also meets with each Banks' Chair and Deputy Chair annually to review the Bank's performance and that of its president. Finally, the Reserve Bank's operations are reviewed by the Board of Governors and an outside independent auditor.

Notwithstanding this strong public oversight, some question the role of commercial banks within the Fed structure. Here too, important safeguards exist. The supervision and regulation of the Federal Reserve's member banks is a statutory responsibility of the Congressionally-confirmed Board of Governors. Bankers who serve on Reserve Bank boards are prohibited by law from participating in the selection of the Bank president, and no director can participate in bank supervisory matters. Finally, all directors are required to adhere to high ethical standards of conduct and avoid actions that might impair the effectiveness of the Federal Reserve's operations or in any way discredit the reputation of the System.

The capital stock supplied by these member banks serves as the foundation for the decentralized structure allowing for separate corporate entities. Through the regional Reserve Banks, private citizens from diverse backgrounds and from the largest to the smallest communities, have input into national economic policy; strong and varied independent perspectives more easily emerge to engage in difficult monetary policy discussions; and the central bank is provided insulation from short-term political pressures.

Altering this public/private structure in favor of a fully public construct diminishes these defining characteristics in my view. It also risks putting more distance between Main Street and the nation's central bank.

Former Fed Chairman Paul Volcker understood this well. He experienced first-hand how public pressure can be exerted on a central bank when it must make unpopular decisions that he and the FOMC judged to be in the long-run best interest of the economy. In a 1984 speech, he

noted the important role of the structure of the Federal Reserve System in supporting the central bank's decision making by saying, "It was all quite deliberately done by men of political imagination -- designed to assure a certain independence of judgment, a continuity and professionalism in staff, a close contact with economic developments and opinion throughout our great land and a large degree of insulation from partisan or passing political concerns."¹

To that end, I extend a personal invitation for any of you to visit the Federal Reserve Bank of Kansas City to see what a regional Federal Reserve Bank provides in support of the central bank's objectives for economic stability. Thank you. I look forward to taking your questions.

¹ Paul A. Volcker, "Remarks at the 78th Commencement of the American University," (speech, Washington, D.C., Jan. 29, 1984), https://fraser.stlouisfed.org/docs/historical/volcker/Volcker_19840129.pdf