

Good Governance and Transparency – Recent Experience of the U.S. Federal Reserve

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Outline

- COVID-19 pandemic did not significantly change the Fed's governance.
- Fed's COVID-19 emergency lending facilities were supported by Congressionally appropriated funds and required U.S. Treasury approval.
 - Accompanied by enhanced reporting requirements.
- New monetary policy framework (released last August) came out of a pre-pandemic review.
 - Fed Listens events fostered two-way communication with the public.
 - New framework increased the transparency of forward guidance on policy.

Emergency lending facilities required Fed coordination with U.S. Treasury

- The Fed's legal framework was not changed in the wake of the pandemic.
- Part of Fed's crisis response was a set of emergency lending facilities to facilitate more directly the flow of credit to households, businesses, and state and local governments.
- The Federal Reserve Board established, with the approval of the Treasury Department, several financing facilities under our emergency lending authority in section 13(3) of the Federal Reserve Act, which allows the Board, in unusual and exigent circumstances, to authorize the extension of credit to any participant in a program or facility with broad-based eligibility.

Congressional action enabled the establishment of the new lending facilities

- “Our actions and programs directly support the flow of credit to households, to businesses of all sizes, and to state and local governments. These programs benefit Main Street by providing financing where it is not otherwise available, helping employers to keep their workers, and allowing consumers to continue spending. In many cases, by serving as a backstop to key financial markets, the programs help increase the willingness of private lenders to extend credit and ease financial conditions for families and businesses across the country. The passage of the CARES Act by Congress was critical in enabling the Federal Reserve and the Treasury Department to establish many of these lending programs.”

[Testimony by Chair Powell before the Committee on Financial Services, U.S. House of Representatives, June 30, 2020](#)

Enhanced disclosure for the new facilities

- The Fed discloses, on a monthly basis, names and details of participants in each such facility; amounts borrowed and interest rate charged; and overall costs, revenues, and fees for each facility.
- “We embrace our responsibility to the American people to be as transparent as possible, and we appreciate that the need for transparency is heightened when we are called upon to use our emergency powers.”

[Testimony by Chair Powell before the Committee on Banking, Housing, and Urban Affairs, U.S. Senate, May 19, 2020](#)

More frequent testimony before Congress

- With the new financing facilities backed by Congressionally appropriated funds, the Federal Reserve Chair has testified more frequently before Congressional committees to review the progress of those facilities.
- In addition to the extensive reporting, the Federal Reserve has provided the general public with opportunity to comment on the facilities.
 - The Fed has adjusted the terms of those facilities to better target support to small businesses and households.

Fed review of strategy, tools, and communications

- Initiated in November 2018 and largely completed pre-pandemic.
- Reviewed new policy tools and communication practices used since the global financial crisis.
- Intended to ensure that the conduct of monetary policy remains well suited to achieve the dual mandate goals of maximum employment and price stability in light of the changing economy.
- Aimed at fostering transparency, accountability, and public understanding and trust.

Fed Listens events improved two-way communication with the public

- 14 Fed Listens events were held around the country in 2019 to hear how monetary policy affects people's daily lives.
- A wide range of organizations participated, including employee groups, small business owners, residents of lower- and middle-income communities, and retirees.
- All the events were live-streamed, with written summaries and videos available on the Board's website. [Summaries of Fed Listens events](#)
- This unprecedented public outreach has become a model for other central banks (e.g. ECB Listens).

Results of the Fed's review

- New Federal Open Market Committee (FOMC) Consensus Statement released on August 27, 2020.

[FOMC Statement on Longer-Run Goals and Monetary Policy Strategy](#)

- Revised interpretation of maximum employment and price stability.
- Recognition of the effective lower bound on the policy rate and acknowledgement of “unconventional” policy tools.
- New strategy for achieving the dual mandate.

[Chair Powell's speech on the Fed's Monetary Policy Review, August 27, 2020](#)

New strategy for achieving maximum employment

- The FOMC's strategy for achieving maximum employment involves basing its decisions:
 - On “shortfalls of employment from its maximum level,” not on “deviations of employment from its maximum level.”
 - This means that high employment (or low unemployment) will not call for a change in policy unless accompanied by too high inflation or other concerns.

New strategy for achieving price stability

- The FOMC's strategy for achieving price stability:
 - Emphasizes the importance of keeping inflation expectations “well anchored at 2 percent.”
 - To anchor expectations at 2 percent, the FOMC “seeks to achieve inflation that averages 2 percent over time.”
 - Thus, “following periods when inflation has been running persistently below 2 percent, appropriate monetary policy will likely aim to achieve inflation moderately above 2 percent for some time.”

Intention to undertake regular reviews

- The review has generally been considered a success:
 - Increased public participation through Fed Listens events.
 - Enhanced transparency by Fed policymakers.
- The FOMC intends to undertake a monetary policy review roughly every 5 years.