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Reforming the Fed: What Would Real Change Look Like?

Proposals to reform the Federal Reserve in one manner or another now have been put forward by Christopher Dodd in the Senate and Ron Paul and Barney Frank in the House of Representatives. Elements of the various bills address the role of the Fed in bank supervision and regulation, potential conflicts of interest between the Fed's responsibilities as a regulator and the method by which regional bank presidents are appointed, and the introduction of a GAO audit of Fed activities. Predictably, academic economists, some of whom have served on the Board of Governors or in other capacities as Fed officials, have argued that the proposed reforms threaten the Fed's independence and, in central banking circles, less independence necessarily implies an impediment to achieving the goals of monetary policy. Others have objected to one proposal or another for reasons unrelated to the default argument of protecting the Fed's independence; for example, there are valid economic arguments to retain the Fed as a bank regulator irrespective of the Fed's independence as an institution. As with most discussions in Washington, strands of good ideas can be found in each of the proposals that have been offered. There is also much in each of the proposals that is ill-advised. The trick, of course, is to separate one from the other.

This is not to say that the Fed cannot be improved by reform. After all, it is an institution that stands, in 2009, with few changes from the structure that Congress established in 1913: A seven member Board of Governors seated in Washington, DC, appointed by the President and confirmed by the Senate and twelve regional banks, chartered as private corporations, headed by presidents appointed by local boards of directors. This System had then, and has now, responsibilities for monetary policy, bank supervision and regulation and the provision of certain services in the payments system; until the early 1980s, those services were provided free of charge but, with deregulation in 1982, the Fed was required to begin charging fees for them and, with competition from private sector vendors, service volume fell and consolidation of Fed activities among fewer branch offices occurred. Bizarrely, however, in instances where priced services operations have been consolidated at one branch office and ceased at another, the Fed still maintains Boards of Directors at those branch offices where business no longer is conducted (more on that below).

With three broad functional responsibilities and a world that has changed dramatically in the last ninety-five years, a reasonable person might ask whether the Fed is ready for a makeover. The answer is that the makeover is long overdue but politicians and economists alike seem too blinded by distractions to think about changes that go beyond superficial "reforms." For politicians, their interests are parochial and in the same spirit of questions about military base closings in home districts: If it's in my district, it's an essential function. For economists, the issue of central bank independence has been linked so closely to central bank performance that anything seen as a potential threat to is attacked as a threat to the institution. Operating under the burden of these blinders, few have bothered to ask a question we might pose to students: Starting from scratch, what would the Fed look like if it were being created today? Having outlined the Fed's three major responsibilities earlier, let's begin with the basics.

First and foremost, the Federal Reserve is the institution responsible for the conduct of monetary policy. While this should be obvious, it apparently is not obvious that the Fed is *not* the institution that is responsible for American agriculture, social security, education, energy, and any in the endless list of research topics investigated by Federal Reserve economists. When A T & T was a regulated monopoly, it had the luxury of subsidizing the pure research conducted at Bell Labs and doing nice things such as distributing the <u>Bell Journal of Economics</u> for free. But the Fed is supported by taxpayers and it has a responsibility to taxpayers to follow its mandate. I have no memory of the Department of Education holding conferences on the status of monetary policy or the Secretary of Energy being asked to testify on matters pertaining to the money supply. The Fed's responsibility is monetary policy, not to serve as "Mr. Know it All."

The role of the regional banks within the policymaking process also has been lost over time. According to press releases, the Fed's policymaking body, the Federal Open Market Committee (FOMC), is a "deliberative" body. Superficially, this would lead an observer to believe that the twelve regional banks would produce research arguing alternative points of view about, for example, the merits of interest rate targeting as a strategy for the implementation of monetary policy in practice. Moreover, when Chairman Greenspan hijacked monetary policy in the late 1980s and early 1990s from the FOMC – allowing the Committee to vote for "no change" in the funds rate on a Tuesday but then used a change in the discount rate on a Friday with a "pass-through" change in the funds rate for "technical reasons" – you would think that a review of the record would show outrage by bank presidents and Governors alike at this outrageous abuse of the Chairman's power. Of course, why would you call the Chairman on this while, over the same period of time he was almost certainly the person who was leaking FOMC decisions to the Wall St. Journal. [1] A review of the record at the twelve regional Reserve Banks, however, will show (a) very little research critical of official monetary policy positions (b) increasing amounts of research devoted to theoretical abstractions unrelated to applied policy questions (c) complete silence on abuse of the policy process (and this is but one example). Any concerned taxpayer can be forgiven for asking: Why am I paying for Potemkin Village? Or, if we need a village, do we need one with twelve regional banks to create a "deliberative body?"

The situation has not been helped in Washington by the newest Yuppie affectation, which is the tendency to use an appointment to the Board of Governors as just-another-line-on-my-bio. If any institution defines the concept of "Byzantine," it is the structure and politics of the Board of Governors, something about which, for example, former Vice Chairman Alan Blinder has written. [2] The staff run the show, the staff have all of the institutional memory and the staff are beholden to the Chairman in the tasks they conduct. If you think you are going to cruise into town and get any answer to any question and have the staff at your disposal when the Chairman prefers instead that you remain the dark and operate without support, join

Inspector Clouseau in the Surete' because you are in the wrong place. The reality is that, during your two-year tour of duty, you will be treated like a Bernie Madoff investor: You'll be given the illusion that you're important, the illusion that you know what's going on and, all the while, the Chairman and the staff will conduct the Fed's business exactly as *they* please. Of course, the exceptionally gifted also may be aware of what is happening but will agree to the duplicity in exchange for the consulting fees and other post-Fed perks that come with the deal. But how the public interest is served by this revolving door on Constitution Avenue has yet to be explained. The Fed is not the Supreme Court but the public never would tolerate the same casual treatment to appointments to this institution.

In the area of bank supervision and regulation, Chairmen going back to Paul Volcker have argued that, with the Fed's primary focus being on the safety and soundness of the *payments system*, its supervisory responsibilities could be confined to the one hundred largest bank holding companies. With some of the largest investment banks converting to bank holding companies to find shelter (and taxpayer welfare) during recent events, this standard would give the Fed the foothold it needs to prevent systemic problems while leaving oversight of smaller banks to other regulatory bodies. If reformers agree that the Fed's regulatory function need only extend to those institutions that have implications for the payments system, the Fed does not need twelve regional offices to execute its supervisory responsibilities.

Finally, the evidence already is in on the priced services function: Competition has taken away a substantial piece of the Fed's business and branch offices have been consolidated. The St. Louis district, for example, once had fully-functioning branches in Little Rock, Louisville and Memphis. The first two, however, no longer carry out any operations (Little Rock services now are done at Memphis and the Louisville operations have been shifted to the Cincinnati branch of the Cleveland Fed). Still, all three branches remain open with boards of directors to oversee their functioning! But what do they do? Clues are provided by the St. Louis Fed's website: *The Little Rock Branch of the Federal Reserve Bank of St. Louis serves the western two-thirds of Arkansas with initiatives in community development, economic education,* *research and monetary policy…….the Federal Reserve Bank of St. Louis has a mandate to increase its community involvement and intellectual presence in each of its Branch cities. Leading the Little Rock Branch's community outreach efforts are Senior Branch Executive Robert Hopkins and a board of directors representing a wide spectrum of the region's economy.* Sorry, but you're not ACORN or the Chamber of Commerce or anything else. [3] You're the central bank with responsibilities for monetary policy and bank supervision and regulation and the provision of priced services. Full stop.

Once you get past the smell test, discerning why these branch offices remain open with boards of directors to represent "a wide spectrum of the region's economy" is not a difficult task. These offices are the Fed's lobbying arm, ready to be mobilized if and when anyone ever tries to tamper with the Fed's current structure, budget, or power. Make a serious suggestion to reform the Fed in a material way and you have a few hundred well-connected people on speed-dial, spread across most, if not all 435 Congressional districts, ready to explain why the proposed reform will mean the end of Western civilization……or that member's Congressional career……whichever comes first. That these branches have not died reveals both the Fed's political game and a complete lack of accountability for its spending.

<u>Shrinkage and Accountability</u>

The reforms proposed below are a bit more dramatic that those that have been offered in Washington and they certainly are subject to their own criticisms. Sen. Dodd believes his proposal will pull the Fed back from "mission creep." He seems to forget, of course, that it has been the Congress that, repeatedly, has tried to get the Fed involved in rescues of non-bank commercial firms (e.g., steel, Chrysler and, um, AIG), not to mention efforts to abandon its mission of price stability to pursue a weaker dollar in an effort to help agricultural exports. It is precisely this kind of constant harping from Congress that has added, not reduced, "mission creep" and Congress has been the problem, not the solution, on this score. Congressman Paul would like the GAO to audit the Fed but the Congress already has oversight powers with respect to Fed data. For reasons unknown, however, Congress has chosen to not to demand that the Fed simply comply with mandates of established law. With this behavior as precedent, it's hard to see how a new audit would change much of anything. Finally, Congressman Frank would like to alter the manner in which the Presidents of the regional Reserve Banks are appointed; I have no quibble in principle but in the substance of what he proposes.

Whether the proposed changes outlined below would achieve a greater coherence between the Fed's mission and the Fed's behavior is unclear because, ultimately, the results depend on people; this, however, is a weakness of all reforms that might be made. Much as it is the case in university settings, rules can be established for certain behaviors with hope left that people will respond to incentives and "do the right thing," but, ultimately, we are human and subject to baser instincts that we wish were not part of the human condition. And, after all, we are talking about a political institution. So, while subject to their own shortcomings, the proposed reforms are intended to (a) make the Fed more *accountable* to the public (b) give the responsible people greater incentives to participate in their assigned activities and (c) define the Fed's goals more clearly.

The first recommendation is to reduce the number of districts in the Federal Reserve System from twelve to five and to have the presidents of those five banks nominated by the President and confirmed by the Senate just as members of the Board of Governors are. The FOMC still would be composed of twelve members but, in this configuration, the five regional bank presidents would have permanent voting privileges. Based on the shifts in population and banking that have occurred since the Fed's creation, the five main offices would be located in New York, Atlanta, Chicago, Dallas and San Francisco. Some of the locations that currently house main offices could be retained as branch locations for priced services operations or locations for bank examination staff. For those who would resist making regional bank presidents Presidential appointments subject to Senate confirmation on the grounds that the regional banks are chartered as private corporations, be careful: I believe an examination of files will reveal some districts have walked both sides of this street, signing documents for building projects as if the regional Fed bank were a *federal agency*, a nice loophole that exempted it from certain building requirements, kept costs (and overhead) down during renovations and helped gain an (unfair if not illegal) advantage in the competition for priced services business. That is, unless I am misinformed, some districts already have admitted that their chief executive is head of a federal agency and the heads of federal agencies are rightly appointed by the President and confirmed by the Senate.

The Washington Post has argued that the appointment of regional bank presidents by the President, with confirmation by the Senate, would politicize the institution. The author of this piece, like so many others, has forgotten that Paul Volcker vetoed nominations by *two* regional boards of directors (Atlanta and St. Louis) for new bank presidents and, in the latter case, put in place his own candidate as a solution to the problem of having an independent voice on monetary policy from one research department in the System. While some may have argued that Volcker didn't want monetarists to be presidents of regional banks, another view is that he didn't want vertebrates to be in those positions. In any case, the very real potential and ample historical precedent for this kind of mischief under both Arthur Burns and Volcker is a compelling reason to leave the appointment of regional bank presidents to an authority outside the Federal Reserve System.

Beyond saving taxpayers a fair piece of change, this shrinkage to a smaller number of districts can be justified on grounds described earlier. Beyond these reasons – declining priced service volume and limiting the Fed's role in bank regulation to the one hundred largest bank holding companies – there are justifications within the monetary policy process as well. First, given the homogeneity of research and opinion within the System and the substantial allocation of resources to activities beyond the scope of the Fed's mandate, it is difficult to justify the existence of twelve research departments – some of them separated by a few hundred miles (Kansas City and St. Louis; Boston, New York, Philadelphia and Richmond) – all doing and saying virtually the same thing. The duplication of effort is magnified by the devotion of considerable research activity to topics having nothing to do with monetary policy.

With some presidents having a vote on the FOMC once every three years and their research departments largely duplicating the work of the others, fewer voices with stronger incentives to make a contribution has some chance of improving the policy process.

With respect to the Board of Governors, a way has to found to identify people who are willing to treat the position as something more than "what I did on my summer vacation." For those of an advanced age or knowledge of Fed history, Henry Wallich comes to mind as an example of a Fed Governor who served the institution with distinction. Although it may be a romantic notion, with longer terms of service Governors would have a better chance of acquiring the institutional knowledge that would equip them to serve more knowledgably as full participants in the policy process. It's not clear how this can this can be made to work in practice other than by contracts with substantial penalties for non-performance or better screening of potential appointees but this is a goal worthy of further scrutiny.

If incentives can be found that will make individuals commit to the Board of Governors for longer terms of service, their own independence needs to be supported with *independent* staff they can select. This would overcome some of trouble now faced when Governors have to rely on Board staff who are controlled by the Chairman. If, however, the Governors (and district bank presidents) are going to continue to be marginalized because they are short-timers who are overwhelmed by the Chairman's power and the staff's institutional memory and knowledge, it may be time to consider moving to a System in which we truly have, in form, what we have had in practice: A single person – The Chairman -- who is responsible for monetary policy issues and is supported by a staff and a group of consultants.

<u>Mission</u>

With twelve permanent members of the FOMC responsible for achieving a monetary policy outcome, it is reasonable to ask whether the Fed's current mandate makes sense. After a moment's thought, it is easy to answer that it does not. The reason for the quick answer is not ideological but mathematical: More than seventy years ago, Tinbergen demonstrated that, with one, independent policy lever, a policy body can pursue, at most, one independent policy outcome. The Fed has a single lever – the quantity of bank reserves; by the way, the fed funds rate, as an endogenously-determined market price, is not an instrument (it might be an indicator variable and an intermediate target variable as well). With this single instrument, left to be determined are: (a) what goal should be pursued and (b) what "strategy" or process is most likely to achieve the stated goal.

Congress, of course, has given the Fed a dual mandate for price stability and full employment, a mandate that is impossible on its face. If Fed officials had behaved responsibly over the last decade, they might have used their political capital to lobby for relief from the latter (real) objective in the knowledge that, in the long run, monetary policy affects only nominal magnitudes. Instead, as a flock of chattering parrots, Governors and bank presidents alike have embraced and preached their commitment to the Fed's beloved dual mandate. Simultaneously, these same officials have lauded their commitment to, and achievement of, greater transparency in monetary policy. This, of course, is nonsense: Greater transparency cannot be achieved when an institution claims to be in pursuit in two conflicting goals. The only mystery is whether Fed officials knowingly understand the problem they face or embrace it so willfully because of the political cover that goes hand-in-glove with the confusion. When macroeconomists speak of "observational equivalence," they rarely think of situations like this.

What should be clear, beyond the impossibility of achieving two conflicting goals with one instrument, is this: When two conflicting goals are in play, the public never knows (a) which goal the Fed is pursuing at any particular moment in time (b) which goal has greater priority in the FOMC's thinking and (c) if, or when, the FOMC might switch from pursuit of one goal to the other. We need revisit only the last eighteen months and a casual reading of the financial press for abundant evidence of this *confusion* and the source of the confusion is the FOMC. There is nothing transparent at all about what is going on. Because the public is uncertain about at least the three bullet points above, the Fed is responsible for introducing a risk premium into markets rather than reducing uncertainty by creating a more informed public. Yes, the Fed is more transparent now than in the past because it sets a specific numerical value for its intermediate target, the federal funds rate, rather than a range, and it announces the decision of FOMC meetings immediately rather than with a 45-day lag. But how this is helpful remains a mystery when the public still is left to speculate about conflicts between the Fed's two alternative goals; to say that confusion reigns is something easily verified by the full employment of "Fed watchers," a profession that would be redundant if meaningful transparency were in place.

Genuine transparency and lower risk could be achieved if the Fed were given a mandate that made sense: The single goal of price stability. Unless macroeconomics really truly is in disarray, there's no evidence that the Fed can forecast short run fluctuations with any reliability, that it can use monetary tools to smooth the cycle, or that a series of "optimal" short run actions to smooth output will be consistent with a desired long run objective for price stability. And if no evidence is available to support that any of this is possible but both theory and evidence indicates that a central bank possesses the tools to achieve long run price stability if it sticks to that single objective, it seems sensible that this should be the central bank's mandate. With this change in legislation, genuinely harmful "mission creep" has been curtailed from the impossible to the doable. The adoption of a single mandate also would follow the precedent set by the central banks of other major economies and of the European Community.

Independence v. Accountability

With regard to the sensitive issue of "independence," nothing that has been proposed in the foregoing threatens the Fed's independence in a meaningful way. Those who retreat to "independence" in every discussion of Fed reform rarely put the issue in context. At the other end of the continuum is "accountability" and, taken literally, a perfectly independent central bank is unaccountable for its actions. This is something that is unacceptable in a democracy. What has to be meant by "independence" is that, once the Fed is given its mandate, it is left free to pursue that mandate without undue interference. In this sense, given the mandate to pursue a single objective for price stability, the Fed should be left to achieve that goal by targeting the funds rate, targeting money growth, manipulating the exchange rate or consulting a Ouija board. That is the sense in which the Fed should be independent: To operate free of political interference to accomplish its stated objective.

But, what is missing from the Fed's current structure and relationship with Congress is any real sense of accountability for its actions. Other than subjecting the Chairman to re-appointment every four years and requiring periodic testimony before various Congressional committees, there are no real penalties if the Fed fails to achieve its objectives. In contrast, the heads of other central banks can be penalized by reductions in salaries or removal from office. Any reform of the Fed would benefit from less focus on independence and greater attention to accountability and ways that sanctions might be imposed when the Fed fails to achieve its new, single objective of price stability.

Oversight

Some of the reform proposals have included recommendations for more oversight of Fed activities, including, for example, Congressman Paul's suggestion that the GAO audit the Fed. While the merits of the GAO audit are not a topic of this *Commentary*, it is worth taking time to discuss that Congress has done a miserable job of exercising its current authority to monitor and discipline the Federal Reserve for obvious mis-steps in its conduct. [4] Already mentioned is the four-year period when someone was leaking FOMC decisions to the Wall St. Journal and, until the late Henry Gonzalez held hearings on Fed secrecy, no one seemed to care about these violations of the law. And when Chairman Greenspan hi-jacked monetary policy for an extended period of time, no one inside the Fed and no one on any of the oversight committees saw fit to ask any questions about the puzzling pattern of FOMC votes and discount rate cuts. And when a GAO audit in the early 1990s found that the regional Federal Reserve Banks – private corporations – were calling themselves federal agencies and determined that this was just fine, nobody raised any eyebrow about this, either. Proposing new authorities when existing oversight is being used ineffectually or not at all seems to be more about Congressional showmanship than good legislative practice.

One more log can be added to the fire on an issue that spans the Fed's responsibilities as a statistical agency and affects the substance of monetary policy transparency and the Fed's accountability to the public. The Federal Reserve Act requires the Fed to *maintain long run growth of the monetary and credit aggregates commensurate with the economy's long run potential to increase production, so as to promote effectively the goals of maximum employment, stable prices, and moderate long-term interest rates.* Implicit in this (at least to me) is the creation and reporting of scientifically valid monetary statistics; if not, the Act's requirement would seem to be a *non-sequitur*: Produce a nonsensical number and then ensure that its growth is adequate for full employment, etc.

If the foregoing logic is valid and the Federal Reserve Act requires the Fed to do what is described above, the Fed is not now and has not been in compliance with the Act, well, ever. To date, Congress has not revealed nor has it investigated this fundamental failure by the Federal Reserve as the *statistical agency* responsible for reporting basic monetary statistics. Worse, with the exception of one on-again, off-again effort at one of the regional Reserve Banks, the research departments and Bank Presidents have been essentially silent in calling attention to the fact that the Fed's monetary statistics violate basic standards of scientific practice and, worse, knowingly fail to adopt modern standards that have been adopted for other series constructed by the Fed. [5] To be clear, the issue here is not one of whether M1 is "better" than M2 as old debates used to frame the question. Instead, the point is that no measure of the money supply produced by the Fed is scientifically valid, the Fed knows the data are invalid, the Fed knows that state-of-the-art practices exist from which valid data could be created and the Fed knowingly refuses to adopt those practices. And yet neither Congressional oversight nor internal dissent has led to a peep of inquiry.

A reasonable person could be forgiven for wondering if the Fed didn't continue its practice of constructing and reporting scientifically invalid money supply data because those data behave erratically and this erratic behavior gives the FOMC both a justification to conduct monetary policy with greater discretion and an excuse if its policy actions lead to unwelcome outcomes (i.e., mistakes). After all, with one less informative data series that the public might monitor, monetary policy becomes less transparent and when the outcomes of monetary policy are less connected to the FOMC's actions, the Fed becomes less accountable. Within this context, the Fed has few incentives to produce monetary statistics that would make the public more informed about the thrust of monetary policy. The scientific community also has been harmed because the continued reporting of these scientifically invalid data has taken an entire range of questions off the table. Is interest rate targeting better than monetary targeting? Is the behavior of the monetary aggregates informative for the course of future inflation? The only honest answers to these, among a wide range of other questions, is "We don't know," because, lacking any meaningful data, questions like this cannot be investigated until the Federal Reserve decides that it will begin to act like the Bureau of Labor Statistics and other data agencies and produce honest, scientifically valid data. On this score, it is fascinating that former Fed Chairman Alan Greenspan was asked to comment on several occasions about how the Consumer Price Index – one measure used to calculate the rate of inflation, an objective for which he was responsible – was calculated and, to everyone's great surprise [sic], he concluded that it overstated the "true" rate of inflation. Given this precedent, it would be nice to have statistical experts from other agencies comment on the quality of the Fed's monetary data. In any case, neither the existing oversight authorities granted to Congress nor voices within the Federal Reserve System have addressed a fundamental failure in the Federal Reserve's responsibilities as a statistical agency and this has had regrettable implications for the course of public policy and scientific inquiry alike.

Conclusion

The Federal Reserve System stands now largely unchanged from the structure it was given more than ninety-five years ago. Recent proposals to reform the Fed have met opposition because they would threaten the institution's independence and reduced independence is thought to impede the Fed's ability to pursue its dual mandate for price stability and full employment.

The reforms suggested in this *Commentary* begin by recognizing that, on efficiency grounds alone, the size of the Federal Reserve System should be reduced: The volume of price services activity already has led to closing a number of branch offices and limiting the Fed's supervisory function to the largest one hundred bank holding companies would argue for the elimination of many main offices as well. Also in favor of reducing the number of main offices is the argument that, with permanent voting status, the smaller number of remaining presidents would have more incentive to be engaged in the monetary policy process than as occasional voters who are lost in a larger group. The creation of incentives to recruit and retain more permanent members of the Board of Governors also was proposed.

In proposing reforms, care was taken to define concepts of "independence" and "transparency" carefully. Although these terms are used frequently in most discussions of Federal Reserve operations and structure, their common uses are imprecise and often meaningless when applied to practical operations of the central bank. The Fed should be independent in the sense that it is free to choose the method in which it pursues the objective it is tasked to achieve but not independent from all accountability for its actions. Moreover, while the Fed has taken credit for being more transparent because it now sets an explicit target for the funds rate and releases more information about its deliberations than in the past, its pursuit of a dual mandate is responsible for introducing considerable confusion into public perceptions about what specific goal the Fed is pursuing with its single instrument and when the FOMC might switch its focus to pursuit of another, conflicting goal. Any reform of the Fed should place a high priority on resolving this conflict and establishing a single objective for the Fed's operations. Because economic theory, empirical evidence and the practice of other major central banks all point in the same direction, it was recommended that Congress adopt legislation that would give the Fed a single goal of achieving price stability. Finally, rather than introducing new tools for Congress to use in employing oversight of Federal Reserve activities, Congress was advised to begin by using the oversight tools currently at its disposal more effectively.

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ENDNOTES

[1] Between March 1989 and May 1993, eleven of thirty-four policy decisions of the FOMC were reported in the Wall Street Journal within a few days of the Fed's meetings. At the time, it was Fed policy to announce its decisions with a forty-five day lag and leaking this information to the press was a violation of federal law. Despite the persistence of the leaks, however, virtually nothing was done to investigate or stop the practice until the fall of 1993 when the late Congressman Henry Gonzales (Dem./Tx) held hearings on the topic of Federal Reserve "secrecy." One result of those hearings was a switch in Federal Reserve practice: FOMC decisions have been announced immediately after meetings adjourned since February 1994. See Belongia and Kliesen (1994).

[2] To cite but one example, when Blinder served as Vice Chairman of the Fed, he asked if he could attend meetings of the research staff to watch their preparation of the "Greenbook" forecast, the Fed's official forecast prepared before each FOMC meeting. The staff denied him permission to attend these meetings. Blinder's account of this episode and other dealings with Fed staff are recounted in……………While preparing this article for final draft, I read an essay written by Blinder shortly after he left the Board of Governors and noticed he chose the word "byzantine" to describe the Fed's governance structure; see Blinder (1996, p. 3).

[3] ACORN is an acronym for "Association of Community Organizations for Reform Now," a collection of community action groups which, according to its website, pursues (among other objectives), a higher minimum wage, the elimination of predatory financial practices and the development of affordable housing and community benefits agreements.

[4] For the record, based on the output of a previous GAO audit of the Fed in the 1990s, I am skeptical that the process would produce anything meaningful.

[5] The money supply data reported by the Federal Reserve are called "simple sum" data because they are arithmetic –unweighted -- sums of the amounts in various deposit categories. Barnett

(see Barnett (1980) and, for a less technical survey, Barnett (1982)) derived results for weighted money supply statistics that were based in the optimizing behavior of individuals and demonstrated that the Fed's methodology for data construction was irredeemably flawed. Moreover, as shown in Belongia (1996) empirical work is sensitive to measurement, with qualitative inferences being reversed when studies using simple sum monetary data were replicated using Divisia measures of the money supply. That the Fed is aware of the measurement problem is well-known: It revised its own Index of Industrial Production with a Fisher-Ideal Index, another member of the superlative class of index numbers, as is the Divisia Index. Work on Divisia indexes at the St. Louis Fed, which have not been updated since 2005, is described in Anderson, Jones and Nesmith (1997) and two more technical articles in the same issue of the St. Louis Fed Review.