

MONETARY POLICY TRANSPARENCY AND
ACCOUNTABILITY ACT OF 2017

APRIL 25, 2018.—Committed to the Committee of the Whole House on the State of
the Union and ordered to be printed

Mr. HENSARLING, from the Committee on Financial Services,
submitted the following

R E P O R T

together with

MINORITY VIEWS

[To accompany H.R. 4270]

[Including cost estimate of the Congressional Budget Office]

The Committee on Financial Services, to whom was referred the bill (H.R. 4270) to amend the Federal Reserve Act to ensure transparency in the conduct of monetary policy, and for other purposes, having considered the same, report favorably thereon without amendment and recommend that the bill do pass.

PURPOSE AND SUMMARY

On November 7, 2017, Representative Barr introduced H.R. 4270, the “Monetary Policy Transparency and Accountability Act of 2017”, which requires the Federal Open Market Committee’s (FOMC’s) annual adoption of a monetary policy strategy and reference policy rules of its own choosing to facilitate a more accessible communication of how incoming data and economic forecasts inform the conduct of monetary policy.

BACKGROUND AND NEED FOR LEGISLATION

The goal of H.R. 4270 is to increase monetary policy transparency and accountability. According to the Board of Governors of the Federal Reserve, the FOMC consists of twelve members—the seven members of the Board of Governors of the Federal Reserve System; the president of the Federal Reserve Bank of New York;

and four of the remaining eleven Reserve Bank presidents, who serve one-year terms on a rotating basis. The rotating seats are filled from the following four groups of Banks, one Bank president from each group: Boston, Philadelphia, and Richmond; Cleveland and Chicago; Atlanta, St. Louis, and Dallas; and Minneapolis, Kansas City, and San Francisco. Nonvoting Reserve Bank presidents attend the meetings of the Committee, participate in the discussions, and contribute to the Committee's assessment of the economy and policy options.

The FOMC holds eight regularly scheduled meetings per year. At these meetings, the Committee reviews economic and financial conditions, determines the appropriate stance of monetary policy, and assesses the risks to its long-run goals of price stability and sustainable economic growth. FOMC decisions about the direction and pace of monetary policy depend on ever changing data and forecasts. By providing for the regular communication of what data FOMC members expect to consider, and how those data tend to translate into monetary policy, a non-binding and plain English publication of a policy strategy and a non-technical discussion of how actual policy decisions compare to well-known benchmarks can provide households and businesses the information they need to make more productive economic decisions.

The FOMC regularly characterizes its conduct of monetary policy as "data dependent." In doing so, however, it can leave households and businesses uncertain about what data matter and how they matter.

The annual adoption of a monetary policy strategy of its own choosing, as well as a small set of reference policy models, reduces policy uncertainty and provides stronger support for growing economic opportunities.

During the Committee's July 2017 hearing about Monetary Policy and the State of the Economy, also known as the "Humphrey-Hawkins hearing",¹ Federal Reserve Board Chair Janet Yellen expressed interest to work with the Committee on Financial Services to codify a simple and effective framework for a more transparent and accountable monetary policy. By synthesizing thoughtful proposals from both sides of the aisle, this framework can considerably strengthen America's economic foundation. For example, Democrat witness Dr. Joseph E. Gagnon shared the following testimony before the Monetary Policy and Trade Subcommittee:²

The best strategy is for the Fed to use various rules in assessing the stance of policy. Whenever it deviates noticeably from popular rules, the Fed should explain clearly why it is doing so.

Other prominent Democratic economists have also advocated this approach to monetary policy transparency and accountability. For example, former Vice-Chair of the Federal Reserve Board, Dr. Don-

¹Full-Committee hearing entitled "Monetary Policy and the State of the Economy," July 12, 2017. Archived webcast available at <https://financialservices.house.gov/calendar/eventsingle.aspx?EventID=402098>.

²Monetary Policy and Trade Subcommittee hearing entitled "The Fed Turns 100: Lessons Learned Over a Century of Central Banking," September 11, 2013. Quoted from page 11 of the printed hearing, available at <https://financialservices.house.gov/calendar/eventsingle.aspx?EventID=347585>.

ald Kohn, offered the following advice in a Brookings Institution report:³

The Federal Reserve should use the semi-annual monetary policy report to better explain and focus on its broad strategy. For some time, as an input to its policy process, the Committee has been shown the results of a number of policy rules based on both incoming data and economic forecasts. And this material has been accompanied by explanations of why the current and expected settings of monetary policy might deviate from the rules.

The “Monetary Policy Transparency and Accountability Act of 2017” provides for exactly the type of framework that Chair Yellen, Dr. Gagnon, and former Vice-Chair Kohn have favorably described, and does so by requiring the FOMC to annually:

- Agree upon a “monetary policy strategy” of its own choosing—that is, a plain English description of how the Committee’s monetary policy instruments (e.g., short-term interest rates) tend to react to relevant data;
- Adopt at least one but not more than three reference policy rules of its own choosing; and
- Review how actual monetary policies may have differed from the reference rules.

Much more than an academic exercise, this framework can fundamentally strengthen our economy by reducing uncertainty about where monetary policy might go tomorrow, and thus helping households and businesses make better decisions today.⁴ Dr. Stephen Cecchetti, who appeared as a Democratic witness before the Subcommittees on Financial Institutions and Consumer Credit and Monetary Policy and Trade,⁵ emphasized these benefits in an article for the St. Louis Federal Reserve bank:

When people are better informed, they make better decisions, enhancing the efficiency of the economy in allocating resources and improving overall welfare. It would be difficult to find an area of economic life where this line of argument has carried more weight than it has in central banking . . . The essence of good, transparent policy is that the economy and the markets respond to the data, not to the policymakers.⁶

Dr. Donald Kohn, a Brookings Institution Fellow and former Vice Chair of the Federal Reserve Board of Governors, offered a similar

³Donald Kohn, “How should central bankers talk about future monetary policy? Lessons from the crisis and beyond,” November 21, 2016. Accessed October 3, 2017 at <https://www.brookings.edu/research/central-bank-talk-about-future-monetary-policy-lessons-from-the-crisis-and-beyond/>.

⁴A recent study by Federal Reserve Board economists finds that “uncertainty about monetary policy robustly raise credit spreads and reduce output.” Source: Lucas Husted, John Rogers, and Bo Sun (2017). “Monetary Policy Uncertainty,” International Finance Discussion Papers 1215. Available at <https://doi.org/10.17016/IFDP.2017.1215>.

⁵See the MPT–FI Joint hearing entitled “Examining the Relationship Between Prudential Regulation and Monetary Policy at the Federal Reserve,” September 12, 2017. Archived webcast available at <https://financialservices.house.gov/calendar/eventsingle.aspx?EventID=402279>.

⁶Stephen G. Cecchetti and Stefan Krause, “Central bank structure, policy efficiency, and macroeconomic performance: Exploring empirical relationships, Review, Federal Reserve Bank of St. Louis, July/August 2002, p. 47. Accessed at <https://files.stlouisfed.org/files/htdocs/publications/review/02/07/47-60Cecchetti.pdf>.

observation while testifying before the Monetary Policy and Trade Subcommittee on July 22, 2015:⁷

Being as systemic, predictable, and transparent as possible about what the Federal Reserve is doing in monetary policy increases the effectiveness of policy because it helps private market participants accurately anticipate Federal Reserve actions. It enhances your ability to assess the policy's strategies of the FOMC.

And before the full Committee on July 17, 2017, Federal Reserve Board Chair Yellen testified that:⁸

In evaluating the stance of monetary policy, The FOMC routinely consults monetary policy rules that connect prescriptions for the policy rate with variables associated with our mandated objectives.

By requiring the Fed's *Monetary Policy Report* to not only illustrate how actual monetary policy may have varied from different policy rules but also provide transparency to why policy may have varied, households and businesses would (as Dr. Cecchetti's article emphasizes) "make better decisions, enhancing the efficiency of the economy in allocating resources and improving overall welfare." Viewed through the lens of this and other research and testimony from Committee witnesses, the Monetary Policy Transparency and Accountability Act offers a fundamentally sound and bi-partisan approach to giving our economy a strong hand up.

HEARINGS

The Subcommittee on Monetary Policy and Trade held a hearing titled "Examining Federal Reserve Reform Proposals" to examine matters relating to H.R. 4270 on November 7, 2017.

COMMITTEE CONSIDERATION

The Committee on Financial Services met in open session on November 14 and 15, 2017, and ordered H.R. 4270 to be reported favorably to the House without amendment by a recorded vote of 33 yeas to 26 nays (Record vote no. FC-98), a quorum being present.

COMMITTEE VOTES

Clause 3(b) of rule XIII of the Rules of the House of Representatives requires the Committee to list the record votes on the motion to report legislation and amendments thereto. The sole recorded vote was on a motion by Chairman Hensarling to report the bill favorably to the House without amendment. The motion was agreed to by a recorded vote of 33 yeas to 26 nays (Record vote no. FC-98), a quorum being present.

⁷ Monetary Policy and Trade Subcommittee hearing entitled "Examining Federal Reserve reform proposals," July 22, 2015. Quoted from page 8 of the printed hearing, available at <https://financialservices.house.gov/uploadedfiles/114-43.pdf>.

⁸ Full-Committee hearing entitled "Monetary Policy and the State of the Economy," July 12, 2017. Archived webcast available at <https://financialservices.house.gov/calendar/eventsingle.aspx?EventID=402098>.

Record vote no. FC-98

Representative	Yea	Nay	Present	Representative	Yea	Nay	Present
Mr. Hensarling	X			Ms. Maxine Waters (CA)	X		
Mr. McHenry				Mrs. Carolyn B. Maloney (NY)	X		
Mr. King	X			Ms. Velázquez	X		
Mr. Royce (CA)	X			Mr. Sherman	X		
Mr. Lucas	X			Mr. Meeks	X		
Mr. Pearce	X			Mr. Capuano	X		
Mr. Posey	X			Mr. Clay	X		
Mr. Luetkemeyer	X			Mr. Lynch	X		
Mr. Huizenga	X			Mr. David Scott (GA)	X		
Mr. Duffy	X			Mr. Al Green (TX)	X		
Mr. Stivers	X			Mr. Cleaver	X		
Mr. Hultgren	X			Ms. Moore	X		
Mr. Ross	X			Mr. Ellison	X		
Mr. Pittenger	X			Mr. Perlmutter	X		
Mrs. Wagner	X			Mr. Himes	X		
Mr. Barr	X			Mr. Foster	X		
Mr. Rothfus	X			Mr. Kildee	X		
Mr. Messer	X			Mr. Delaney	X		
Mr. Tipton	X			Ms. Sinema	X		
Mr. Williams	X			Mrs. Beatty	X		
Mr. Poliquin	X			Mr. Heck	X		
Mrs. Love	X			Mr. Vargas	X		
Mr. Hill	X			Mr. Gottheimer	X		
Mr. Emmer	X			Mr. Gonzalez (TX)	X		
Mr. Zeldin	X			Mr. Crist	X		
Mr. Trott	X			Mr. Kihuen	X		
Mr. Loudermilk	X						
Mr. Mooney (WV)	X						
Mr. MacArthur	X						
Mr. Davidson	X						
Mr. Budd	X						
Mr. Kustoff (TN)	X						
Ms. Tenney	X						
Mr. Hollingsworth	X						

COMMITTEE OVERSIGHT FINDINGS

Pursuant to clause 3(c)(1) of rule XIII of the Rules of the House of Representatives, the findings and recommendations of the Committee based on oversight activities under clause 2(b)(1) of rule X of the Rules of the House of Representatives, are incorporated in the descriptive portions of this report.

PERFORMANCE GOALS AND OBJECTIVES

Pursuant to clause 3(c)(4) of rule XIII of the Rules of the House of Representatives, the Committee states that H.R. 4270 will make Federal Reserve monetary policy decisions easier to anticipate and understand so that households and businesses can make better choices about how to spend and invest their earnings by institutionalizing a policy-communications framework that reduces uncertainty about economic opportunities.

NEW BUDGET AUTHORITY, ENTITLEMENT AUTHORITY, AND TAX EXPENDITURES

In compliance with clause 3(c)(2) of rule XIII of the Rules of the House of Representatives, the Committee adopts as its own the estimate of new budget authority, entitlement authority, or tax expenditures or revenues contained in the cost estimate prepared by the Director of the Congressional Budget Office pursuant to section 402 of the Congressional Budget Act of 1974.

CONGRESSIONAL BUDGET OFFICE ESTIMATES

Pursuant to clause 3(c)(3) of rule XIII of the Rules of the House of Representatives, the following is the cost estimate provided by the Congressional Budget Office pursuant to section 402 of the Congressional Budget Act of 1974:

U.S. CONGRESS,
CONGRESSIONAL BUDGET OFFICE,
Washington, DC, January 22, 2018.

Hon. JEB HENSARLING,
Chairman, Committee on Financial Services,
House of Representatives, Washington, DC.

DEAR MR. CHAIRMAN: The Congressional Budget Office has prepared the enclosed cost estimate for H.R. 4270, the Monetary Policy Transparency and Accountability Act of 2017. This cost estimate supersedes the previous cost estimate for H.R. 4270, which CBO transmitted on December 5, 2017. This version corrects an error in the description of the bill's requirements.

If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contact is Nathaniel Frentz.

Sincerely,

KEITH HALL,
Director.

Enclosure.

H.R. 4270—Monetary Policy Transparency and Accountability Act of 2017

Current law gives the Federal Reserve’s Board of Governors and its Federal Open Market Committee (FOMC) broad authority to establish and conduct monetary policy. Twice each year, the Chair of the Federal Reserve is required to present Congressional testimony and to report to the Congress concerning the efforts, activities, objectives, and plans related to monetary policy.

H.R. 4270 would require the FOMC to establish and describe an annual strategy for monetary policy that would include a description of the way that the committee would adjust the instruments of monetary policy, including an identified primary instrument, in response to changes in economic indicators. The bill also would require the Federal Reserve’s testimony and reports to describe at least one reference rule, or mathematical equation, that would be used as a benchmark for the conduct of monetary policy, and identify whether and how actual monetary policy has deviated from that rule.

The bill would directly affect revenues through the operations of the Federal Reserve System, which remits its net earnings to the Treasury; those remittances are classified as revenues in the federal budget. CBO estimates that enacting H.R. 4270 would increase costs of the Federal Reserve starting in 2019 and thus decrease federal revenues by \$8 million over the 2018–2027 period. Those higher costs reflect, in particular, CBO’s anticipation that the Federal Reserve would implement the bill by hiring a small number of additional staff to modestly expand its current work on monetary policy rules and to coordinate across the offices of the members of the FOMC, including the associated regional Federal Reserve Bank presidents.

The Statutory Pay-As-You-Go Act of 2010 establishes budget-reporting and enforcement requirements for legislation affecting direct spending or revenues. The net changes in revenues that are subject to those procedures are shown in the table below. CBO estimates that enacting H.R. 4270 would not affect direct spending.

CBO’S ESTIMATE OF PAY-AS-YOU-GO EFFECTS FOR H.R. 4270, AS ORDERED REPORTED BY THE HOUSE COMMITTEE ON FINANCIAL SERVICES ON NOVEMBER 14, 2017

	By fiscal year, in millions of dollars—													2018– 2022	2018– 2027
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027					
	NET INCREASE OR DECREASE (–) IN THE DEFICIT														
Statutory Pay-As-You-Go Impact	0	1	1	1	1	1	1	1	1	1	1	1	1	3	8

CBO estimates that enacting H.R. 4270 would not affect net direct spending or increase on-budget deficits by more than \$5 billion in any of the four consecutive 10-year periods beginning in 2028.

H.R. 4270 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act and would impose no costs on state, local, or tribal governments.

This cost estimate supersedes the previous cost estimate for H.R. 4270, which CBO transmitted on December 5, 2017. The prior estimate erroneously indicated that the bill would require that the FOMC establish a mathematical description of the way that the

committee would adjust the instruments of monetary policy. This revised cost estimate corrects the description of H.R. 4270 but does not change the estimated cost of the bill.

The CBO staff contact for this estimate is Nathaniel Frentz. The estimate was approved by John McClelland, Assistant Director for Tax Analysis.

FEDERAL MANDATES STATEMENT

This information is provided in accordance with section 423 of the Unfunded Mandates Reform Act of 1995. The Committee has determined that the bill does not contain Federal mandates on the private sector. The Committee has determined that the bill does not impose a Federal intergovernmental mandate on State, local, or tribal governments.

ADVISORY COMMITTEE STATEMENT

No advisory committees within the meaning of section 5(b) of the Federal Advisory Committee Act were created by this legislation.

APPLICABILITY TO LEGISLATIVE BRANCH

The Committee finds that the legislation does not relate to the terms and conditions of employment or access to public services or accommodations within the meaning of the section 102(b)(3) of the Congressional Accountability Act.

EARMARK IDENTIFICATION

With respect to clause 9 of rule XXI of the Rules of the House of Representatives, the Committee has carefully reviewed the provisions of the bill and states that the provisions of the bill do not contain any congressional earmarks, limited tax benefits, or limited tariff benefits within the meaning of the rule.

DUPLICATION OF FEDERAL PROGRAMS

In compliance with clause 3(c)(5) of rule XIII of the Rules of the House of Representatives, the Committee states that no provision of the bill establishes or reauthorizes: (1) a program of the Federal Government known to be duplicative of another Federal program; (2) a program included in any report from the Government Accountability Office to Congress pursuant to section 21 of Public Law 111–139; or (3) a program related to a program identified in the most recent Catalog of Federal Domestic Assistance, published pursuant to the Federal Program Information Act (Pub. L. No. 95–220, as amended by Pub. L. No. 98–169).

DISCLOSURE OF DIRECTED RULEMAKING

Pursuant to section 3(i) of H. Res. 5, (115th Congress), the following statement is made concerning directed rule makings: The Committee estimates that the bill requires no directed rule makings within the meaning of such section.

SECTION-BY-SECTION ANALYSIS OF THE LEGISLATION

Section 1. Short title

This Section cites H.R. 4270 as the Monetary Policy Transparency and Accountability Act of 2017.

Section 2. Monetary policy transparency and accountability

This section provides for the publication of a plain English, non-technical, description of how the FOMC expects monetary policy to change with incoming data and forecasts, and testify on how the actual conduct of monetary policy compares to a small set of reference rules of the FOMC's own choosing.

CHANGES IN EXISTING LAW MADE BY THE BILL, AS REPORTED

H.R. 4270 does not repeal or amend any section of a statute. Therefore, the Office of Legislative Counsel did not prepare the report contemplated by clause 3(e)(1)(B) of rule XIII of the Rules of the House of Representatives.

MINORITY VIEWS

H.R. 4270 requires the Federal Reserve to adopt “exactly one” monetary policy strategy and between one and three policy rules on an annual basis that must be compared against the actual conduct of monetary policy.

The language calling for “exactly one” strategy is perhaps one of the most troubling aspects of the bill, which has the potential to undermine or curtail the Federal Reserve’s dual mandate, particularly the full employment aspect, which is not mentioned at any point in the bill. Read literally, the language appears to require the Federal Reserve to choose between full employment and price stability. Given the litany of Republican members that have called for the Federal Reserve to drop its focus on full employment in other contexts, the “exactly one” language raises significant concerns that warrant a cautious approach to meddling with the Federal Reserve’s monetary policy objectives. A single strategy could also be interpreted to prevent the Federal Reserve from targeting specific, impaired, sectors of the economy, as the Federal Reserve did effectively as part of its most recent stimulus program.

Codifying an obligation for the Federal Reserve to reference one to three simplistic policy rules could also have unintended and unfortunate consequences.

First, doing so could result in an overreliance on simple rules, which by their nature fail to account for the complexity within the U.S. economy that policy makers currently take into account in setting monetary policy. As former Vice Chairman of the Federal Reserve, Donald Kohn, has previously cautioned, “no rule can embody the complexities of the real world in a few variables—and efforts to do so will only hamstring the Fed from reacting to developments, especially when the real world takes unexpected turns outside of historical experience.”

Second, putting reference policy rule requirements into law could easily serve to discourage Federal Reserve policymakers from deviating from the simplistic rules-based policy prescriptions, even when a failure to do so could have significant adverse consequences on the wealth and well-being of hard-working American families. For example, in the aftermath of the 2008 financial crisis, the Federal Reserve has consistently targeted a level for short-term rates that is well below the level called for by many reference rules. Had the Federal Reserve followed the simplistic prescriptions of a number of the most frequently referenced policy rules and prematurely raised rates, it could have slowed the recovery, reduced employment opportunities, and otherwise inflicted economic pain on American households and businesses.

Despite taking swift, bold, and unprecedented steps which were key to our economy’s recovery, Republicans have frequently attacked the Federal Reserve’s conduct of monetary policy, making

monetary policy the scapegoat for their own failed fiscal policies which slowed the economy's progress and undercut the Federal Reserve's efforts. Creating a legal requirement that discourages such bold action should be rejected.

While Republicans argue that the legislation is needed to increase accountability and transparency, both of which are noble objectives, Federal Reserve officials already conduct the type of open and transparent communication that this bill calls for.

For each of these reasons, we oppose H.R. 4270.

MAXINE WATERS.
DANIEL T. KILDEE.
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