MEMORANDUM

To: Ady Barkan
From: Sima Atri, Daniel Dyssegaard Kallick, Shawn Sebastian
Re: The Alleged Insulation of the Federal Reserve from Political Pressure
Date: June 20, 2014

Question Presented
Is the Federal Reserve an apolitical institution or is it influenced by political lobbyists?

Short Answer
Although the mythology of the Federal Reserve is that is technocratic, insulated, apolitical institution, an analysis of publicly available lobbying records, the affiliations of Federal Reserve officeholders, the recent history of the Federal Reserve, and statistical analysis of Federal Reserve policy shows that it is subject to significant political pressure and lobbying and that in fact its decision making processes and outcomes are significantly influenced by corporate and financial interests.

Discussion

There is an Unambiguous Public Record of the Federal Reserve System Being Lobbied, Overwhelmingly by Lobbyists Representing the Interests of the Financial Sector

The Federal Reserve System is the target of frequent lobbying by the financial sector even though the institution is designed to be insulated from political influence. OpenSecrets.org has compiled data from the Senate Office of Public Records on lobbying and other official documentation, and to date in 2014 the Federal Reserve has been lobbied on behalf of 94 different clients and listed in 101 lobbying reports.[1] In 2013 the Federal Reserve was lobbied on behalf of 143 different clients and listed in 438 lobbying reports[2] and in 2012 the Federal Reserve was lobbied on behalf of 155 clients and listed in 497 lobbying reports.[3] The clients lobbying the Federal Reserve are overwhelmingly banks, lobbyists representing financial institutions, or law firms representing financial institutions.

The Federal Reserve is a central target for lobbying for the banking industry. As an illustrative example, the American Bankers Association (ABA), a lobbying organization for the financial sector, spent $2.5 million in the first quarter of 2012 alone lobbying three government

[1] "Federal Reserve System: Agency Profile, 2014," OpenSecrets.org, accessed June 19, 2014, *available at* https://www.opensecrets.org/lobby/agencysum.php?id=062.
[2] "Federal Reserve System: Agency Profile, 2013," OpenSecrets.org, accessed June 19, 2014, *available at* https://www.opensecrets.org/lobby/agencysum.php?id=062&year=2013.
[3] "Federal Reserve System: Agency Profile, 2012," OpenSecrets.org, accessed June 19, 2014, *available at* https://www.opensecrets.org/lobby/agencysum.php?id=062&year=2012.

institutions: the Senate, the House of Representatives, and the Federal Reserve.[4] The ABA focused its efforts with the Federal Reserve on "Proposed clarifications of certain Dodd-Frank Act provisions," according to its own lobbying report.[5] Since the Federal Reserve makes policies directly impacting the interests of the financial sector, it is unsurprising that the ABA and other corporate and political entities representing the financial sector prioritize the Federal Reserve as a lobbying target.

Each of the hundreds of clients lobbying the Federal Reserve – from the ABA and Blackrock to the US Chamber of Commerce and Xerox – submit hundreds of similar reports disclosing the total amount they spent on lobbying the federal government, listing the Federal Reserve as one of their lobbying targets and describing the Federal Reserve policy that they are lobbying to change or influence. The Federal Reserve is a primary target of the financial industry's lobbying efforts according to publicly available lobbying reports.

The Financial Sector Meets Regularly with the Federal Reserve Bank to Lobby for Changes in Fed Policy and Implementation

Federal Reserve officials regularly and frequently meet with banks, the law firms representing banks, and the lobbying groups working for banks and each of these entities works to shape Federal Reserve policy outcomes, implementation, and enforcement. According to meeting logs required by Dodd-Frank, the overwhelming majority of meetings taken by the staff of the Federal Reserve Board of Governors are with banks or organizations representing banking interests; those who represent the interests of consumers or workers are afforded a small fraction of the access granted to the financial industry. These meetings are significant because lobbyists representing the interests of the financial industry explicitly – and frequently – urge the Federal Reserve to make specific changes to their policies and suggest methods of implementation. The disproportionate access reflected in the records of the Federal Reserve Board's meetings illustrates political pressure and influence exerted on the Federal Reserve to further the specific policy agenda of the financial sector.

The list of the most recent meetings of the Federal Reserve Board provided by the Sunlight Foundation reveals that a parade of banks and investment firms – including Goldman Sachs, JP Morgan, and Bank of America – regularly meet with the staff of the Federal Reserve Board of Governors. Since 2012, the staff of the Board of Governors has taken over 300 meetings and the overwhelming majority of these meetings have been with banks, law firms representing banks, or lobbying groups representing the interests of banks. Records show that the financial industry

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[4] "American Banker's Association Lobbying Report, First Quarter 2012," *available at* http://soprweb.senate.gov/index.cfm?event=getFilingDetails&filingID=D68B3FFF-96F4-4685-8F17-DC505A902925&filingTypeID=51.

[5] Id.

used this access to explicitly lobby for specific changes to Fed policy and application of Fed rules.[6]

For example, since 2012 the staff of the Board of Governors has taken over 40 meetings on the Volcker Rule alone. The Volcker Rule aims to restrict United States banks from making certain kinds of speculative investments that do not benefit their customers. The Fed took meetings with only two organizations representing consumer and public interest, Occupy the SEC and Americans for Financial Reform. All the other meetings the Fed took on the Volcker rule were with Goldman Sachs, JP Morgan, Bank of America, the American Banking Association, and other financial industry lobbyists. These corporations and lobbyists had a direct audience with the staff of the Federal Reserve Board of Governors and used these opportunities to share their "views" on the "potential negative impact" of specific applications of the rule,[7] and "recommended that the final rule be modified."[8] Financial industry lobbyists also meet with the staff of the Regional Federal Reserve Banks to share their views on Fed policy and their recommendations on how to change it or alter its implementation.[9]

The Expenditures of the Financial Sector Lobby and the Access Granted by the Federal Reserve Has Generated Numerous Examples of Political Influence

When the Federal Reserve makes key policy decisions, the influence of lobbyists becomes more apparent. During the consideration of the Volcker Rule in 2012, over 100 lawmakers lobbied the Federal Reserve.[10] For example, Republican Senator Scott Brown's office lobbied the Fed's top lawyer through email correspondence arguing that the Fed should allow a broad range of bank customers to invest in hedge funds; after Brown's lobbying, the Fed's first draft of the rule adopted the broad definition that his office recommended.[11] This lobbying occurred months

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[6] "Dodd-Frank Meeting Logs," Sunlight Foundation Reporting Group, accessed June 19, 2014, *available at* https://reporting.sunlightfoundation.com/doddfrank/agency/fed.

[7] *See,* e.g. "Meeting Between Federal Reserve Board Staff and Grosnevor Capital," February 8, 2012, *available at* http://www.federalreserve.gov/newsevents/rr-commpublic/Grosvenor-Capital-Meeting-20120208.pdf.

[8] *See,* e.g. "Meeting Between Federal Reserve Board Staff and JP Morgan," February 2, 2012, *available at* http://www.federalreserve.gov/newsevents/rr-commpublic/jpmc-meeting20120202.pdf.

[9] The Sunlight Foundation's database does not include complete information on lobbying of the Federal Reserve Regional Banks, but there are a few entries illustrating that lobbying occurs at the Regional Banks. *See*, e.g. "Meeting Between Federal Reserve Bank of Dallas Staff and Representatives of Colonial Savings," June 29, 2012, *available at* http://www.federalreserve.gov/newsevents/rr-commpublic/colonial-savings-meeting-20120629.pdf; "Meeting Between Federal Reserve Staff and Representatives of JPMorgan Chase (JPMC)," April 17, 2012, *available at* http://www.federalreserve.gov/newsevents/rr-commpublic/jpmc-meeting-20120417.pdf [with members of the New York Federal Reserve Bank]; and "Meeting between Federal Reserve Staff and Representatives from SunTrust Bank," January 14, 2011, *available at*, http://www.federalreserve.gov/newsevents/rr-commpublic/suntrust_meeting__20110114_.pdf [with members of the Richmond Federal Reserve Bank].

[10] Ben Protess, "Behind the Scenes, Some Lawmakers Lobby to Change the Volcker Rule," *The New York Times*, September 20, 2012, *available at* http://dealbook.nytimes.com/2012/09/20/behind-the-scenes-a-lawmaker-pushes-to-curb-the-volcker-rule/?_php=true&_type=blogs&_r=0.

[11] Id.

before regulators opened a public comment period or even publicly released a draft version of the rule. The Fed's decision making is influenced by lobbying from politicians – who are often, as in the case of Brown, pushing the priorities of the corporate interests who have lobbied them – before the public's voice can be heard and before the public is even made aware impending Fed policy changes.

In addition to pressuring elected representatives to advocate for their concerns to the Federal Reserve Bank, the financial sector also lobbies the Federal Reserve directly. The full extent of the lobbying by financial institutions was described above, as illustrated in the hundreds of lobbying reports where financial institutions disclose that their target was the Federal Reserve and their goals were for policy changes. One particularly dramatic example of this access is when Jamie Dimon, the CEO of JP Morgan Chase, and the CEOs of Goldman Sachs and Bank of America, held a closed door meeting with the Federal Reserve to lobby for the loosening of proposed restrictions on bank activity and to present their own alternate proposals for Fed policy.[12] The impact of such a meeting is difficult to gauge since the proceedings were opaque and not open to the public, but there is no example of representatives of the public interest being granted comparable access.

While individual policies are prone to political influence, the selection of members of the Federal Reserve system itself – those who will set policy agendas for years – is also highly politicized. For example, when Sandra Braunstein stepped down as the Fed's head of the Consumer Affairs division, bank lobbyists were consulted for recommendations before appointing her replacement.[13] The level of political influence banks exert over Fed personnel decisions create the conditions for an institution staffed disproportionately with people who have particular ideological backgrounds that are compatible with the interests of lobbyists making the recommendations for appointments.

Employees at the Fed who do not adhere to the expectations of the financial sector lobby have been dismissed. For example, Carmen Segarra, an examiner for the Fed, found that conflict of interest policies at Goldman Sachs fell short of the Federal Reserve's requirements, but the New York Fed pressured her to change her report before publishing it.[14] When she refused, Segarra was escorted out of the office by security and fired. The case is ongoing and no evidence has yet

[12] Bradley Keoun, et. al., "Dimon Cites 'Give and Take' After Bank Chiefs Meet at Fed," Bloomberg News, May 3, 2012, *available at* http://www.bloomberg.com/news/2012-05-03/dimon-meets-tarullo-as-banks-lobby-fed-on-softer-rules.html.

[13] Ryan Grim, "Federal Reserve Asks Financial Industry Lobbyists For Personnel Recommendations," *The Huffington Post*, January 23, 2014, *available at* http://www.huffingtonpost.com/2014/01/02/federal-reserve-lobbyists_n_4533518.html.

[14] Jake Bernstein, "Lawsuit claims N.Y. Fed fired regulator who raised questions about Goldman Sachs," *The Washington Post*, October 10, 2013, *available at* http://www.washingtonpost.com/business/economy/lawsuit-claims-ny-fed-fired-regulator-who-raised-questions-about-goldman-sachs/2013/10/10/0c26836c-31c2-11e3-8627-c5d7de0a046b_story.html.

been released implicating Goldman Sachs directly, but Segarra alleges a granular level of political manipulation at the New York Fed – down to the firing of individual personnel – in order to protect Goldman Sachs. Goldman is known for having close ties with the New York Fed, its primary regulator: the current president of the New York Fed, William Dudley, is a former Goldman partner and Stephen Friedman, a former chairman of the New York Fed, led the Goldman board's risk committee at the time of Segarra's firing.

The Presidents of the Regional Banks Maintain Political Relationships and Ideological Affiliations that Affect their Policy Decisions

The members of the Federal Reserve are personally and politically intertwined with the banking industry, right wing think tanks, and political parties (See attached Table 1: Federal Reserve Presidents' Affiliations and Connections). Each of these affiliations and experiences – and the ongoing relationships these individuals maintain with their former co-workers, sponsors, and the recipients of their donations – illustrate the potential political influences shaping Federal Reserve policy.

First, many Federal Reserve Regional Bank presidents (who are members of the Federal Open Market Committee (FOMC)), formerly worked at investment banks and on Wall Street it is fair to assume that, like most people, the FOMC members' previous experiences, colleagues, and future career plans profoundly shape their priorities and values. William Dudley of the New York Federal Reserve managed Goldman Sachs, Charles Plosser of the Philadelphia Federal Reserve was a consultant at Chase Manhattan Bank, Dennis Lockhart of the Atlanta Federal Reserve worked at Citigroup, Richard Fisher of the Dallas Federal Reserve worked at a Wall Street investment bank, and Stanley Fischer, a Governor, worked in executive positions at Citigroup, the International Monetary Fund, and the World Bank (See Figure 1 below). No Regional Bank President has worked at a labor union or pro-labor organization.[15] The lack of diversity in work experiences of those entering the bank results in a specific perspective reflected in the decision making at the Regional Reserve Banks.

Second, Federal Reserve Regional Bank presidents maintain connections with political institutions and industry by sitting on boards of organizations that have clear political valences. For example, FOMC members are board members and advisors to organizations including the Hoover Institution, the Economic Club of New York, the Group of Thirty, local Chambers of Commerce, and the Council of Foreign Relations. FOMC members have also spoken at organizations such as the Cato Institute, the Hoover Institution, local Chambers of Commerce, the Conservative Political Action Conference, and many business and bankers associations. In

[15] The other eight Regional Bank Presidents worked as staff at the Federal Reserve before becoming president or came out of academia (See attached Table 1: Federal Reserve Presidents' Affiliations and Connections). Research from "Little Sis Database," *available at* http://littlesis.org/ and "Federal Reserve," *available at* http://www.federalreserve.gov/otherfrb.htm.

contrast, no Federal Reserve President spoke at a pro-labor institution during the period we examined nor sits on the board of a progressive organization.[16]

Third, the members of the Federal Open Market Committee express their political affiliations by donating to political campaigns, including donations to the Goldman Sachs Political Action Committee and the Citigroup Political Action Committee (See Figure 1 below).

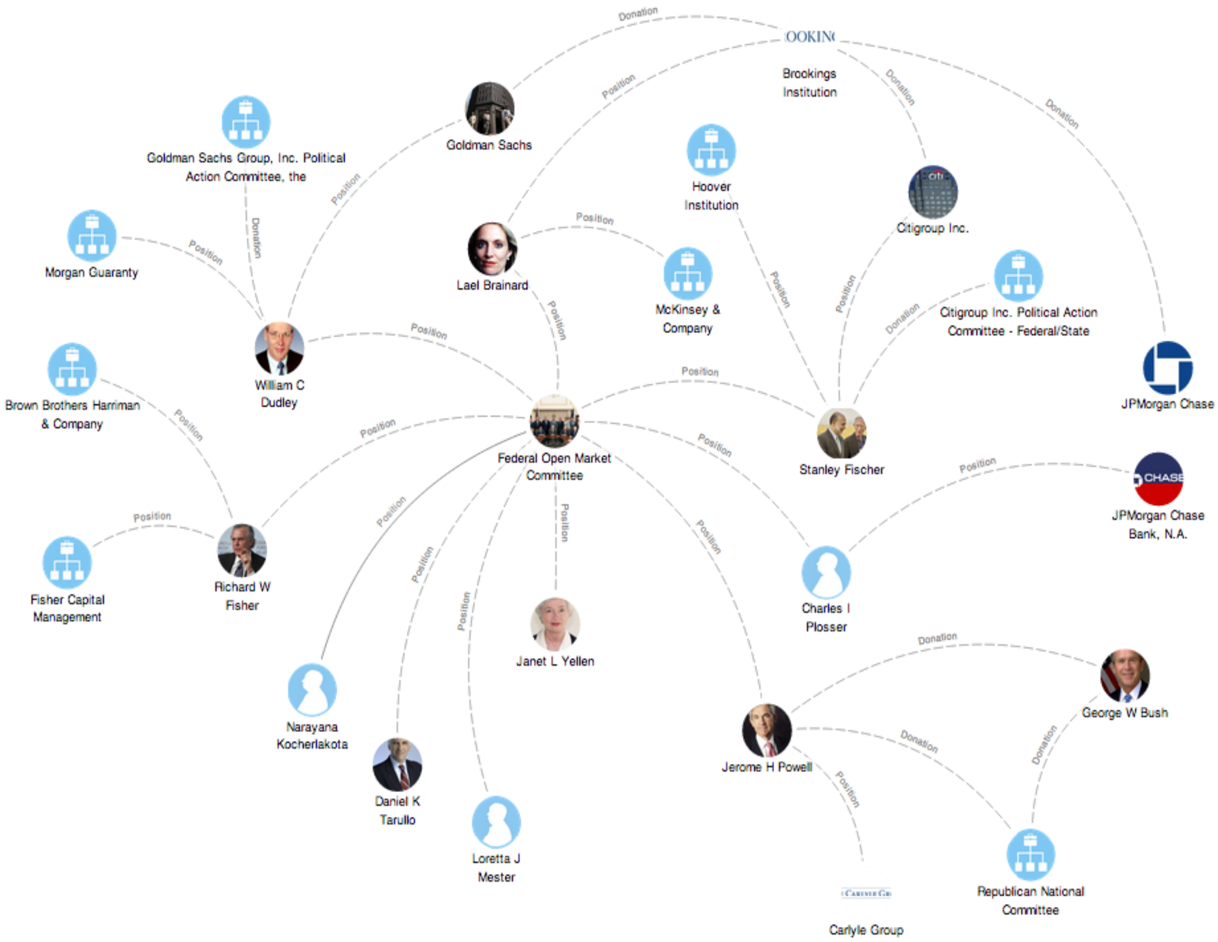

Figure 1: Prior Banking and Political Affiliations of Members of the Federal Open Market Committee

[16] See attached Table 1: Federal Reserve Presidents' Affiliations and Connections. Research compiled from "Little Sis Database," *available at* http://littlesis.org/ and "Federal Reserve," *available at* http://www.federalreserve.gov/otherfrb.htm, as well as other public databases.

The Board Members of the Regional Banks Are Also Disproportionately Representative of Corporate Interests Rather Than Public Interests

<u>Structure of the Regional Bank Boards</u>

There are twelve regional Federal Reserve Banks, which serve as the operating arms of the Federal Reserve system. Each bank has a Board of Directors, whose members work closely with their Reserve Bank president to provide economic information and input on management and monetary policy decisions. The board of directors also appoints the presidents of the banks, subject to the approval of the federal Board of Governors.

Regional Bank Boards consist of nine members: six serving as representatives of non-banking enterprises and the non-banking public, and three as representatives of banking.[17] There are three designated classes of board members:

- Class A members are chosen by and representative of the stockholding banks. Members are selected by member banks.
- Class B members represent the public with due consideration for the interests of agriculture, commerce, industry, services, labor and consumers. Class B members cannot be officers, directors, or employees of a bank. They are selected by member banks.
- Class C members are chosen to represent the public, with due consideration to the interests of agriculture, commerce, industry, services, labor, and consumers. Class C members must have been residents of the district for which they are appointed for at least two years and cannot be officers, directors, or employees of a bank. They are selected by the Board of Governors of the Federal Reserve.

Therefore, according to federal law, six of the nine members of each Board of Directors are not be bank representatives. However, an analysis of the employers of Regional Bank board members highlights the lack of diversity of perspectives represented on the Board (See attached Table 2: Federal Board of Governors). Only two of the 108 members of the boards of directors of the Regional Banks work at labor organizations (Sara Horowitz from the Freelancers Union and Jorge Ramirez from the Chicago Federation of Labor) and only 11 of the 108 are employed by not-for-profit institutions. The remaining 97 members of the boards of directors of the Regional Banks work for large for profit corporations, not at organizations working in the public interest or for consumer advocacy. (In earlier decades, advocates of labor and the public interest occupied many more of the Class B and Class C seats).

Empirical Studies Show that the Federal Reserve is Influenced by Political Lobbying

In their 1998 paper, Tony Caporale and Kevin Grier conducted a study using the Fed Funds rate as an indicator of monetary policy in order to determine the effect of the political climate on the

[17] As outlined in U.S. Code, Title 12, Chapter 3, Subchapter 7.

Federal Reserve. Caporale and Grier concluded, “The empirical work [we have done] demonstrates that the Federal Reserve is not so different from the International Trade Commission or the Federal Trade Commission or any other federal bureau in that at least one of its outputs, monetary policy, is significantly affected by political changes.”

Through statistical analysis, the authors found that changes in the composition of Congress, changes in the executive branch, and changes in the Fed chairmanship have a “systematic, predictable influence on monetary policy.” They argued that liberal elected officials are more likely to favor expansionary monetary policy, and therefore hypothesized that when Congress and the executive branch are controlled mostly by liberal elected officials, the Fed will favor more expansionary policy, and vice versa for conservative politicians. Using the Americans for Democratic Action (ADA) scores to rank how liberal politicians are, they confirmed their hypothesis to a high degree of statistical significance. The authors acknowledged that the Federal Reserve is intended to be an apolitical, technocratic institution, but conclude that their results “are too strong to be swept aside,” and ultimately that “Politics matters and knowledge about political changes can help forecast monetary policy.”[18]

In a more recent analysis of the influence of lobbying on Fed monetary policy, Lucy Goodhart argues that under Dodd-Frank the financial industry has mobilized to exert massive pressure on the Federal Reserve. Goodheart shows that after the passage of Dodd-Frank, financial firms spent near record amounts – $167 million in 2012 alone – on lobbying for changes in financial policy. The Federal Reserve is the central banking and these lobbying expenditures were largely directed at them – either directly or through political officeholders who in turn lobbied the bank. Lobbying disclosure requirements only require lobbyists to list which agencies they target and the total amount spent on all federal lobbying that quarter, so the specific amounts financial sector lobbyists have spent on lobbying the Federal Reserve are not disaggregated; however, as shown above, the Federal Reserve is named in lobbying disclosure records as a primary target of financial industry lobbying. Undoubtedly, the financial sector devotes a significant portion of the millions it spends specifically on lobbying the Federal Reserve.

According to the author, “Those companies with equity over $5 billion, and groups representing larger financial firms, accounted for approximately half of all lobbying expenditures [on financial sector issues] in 2012 even though there were just 43 such lobbying clients out of a total of 309 banking and financial firms and groups lobbying. Indeed, just six large companies and interest groups that all spent over $5 million account for nearly one quarter of all lobbying expenditure in 2012 [on financial sector issues].” The picture Goodheart paints is one in which a few of the largest financial institutions deploy their disproportionate wealth to shape rules in order to

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[18]Caporale, Tony, and Kevin B. Grier. “A Political Model of Monetary Policy with Application to the Real Fed Funds Rate*.” *The Journal of Law and Economics* 41, no. 2 (October 1998) http://www.journals.uchicago.edu/doi/abs/10.1086/467395.
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further their narrow economic interests, often at the expense of the public. Goodheart concludes from her findings that "A very small group of large financial firms, in other words, and the interest groups allied with them, are a major force in lobbying on financial policy."[19]

The U.S. Government's own analysis concludes that the Federal Reserve is a politicized institution significantly influenced by the financial sector. The Government Accountability Office released a report stating that questions about the Federal Reserve's governance persist because of a lack of transparency regarding conflicts of interest.[20] One example cited in the GAO report is General Electric's role in the Commercial Paper Funding Facility (CPFF), a program created as part of the Troubled Asset Relief Program (TARP) in 2008. The CPFF funded a special purpose vehicle that purchased three-month unsecured and asset-backed commercial paper from eligible issuers. GE borrowed $16 billion through this program at the same time that the CEO was serving as a Class B director for the Federal Reserve Bank of New York.[21] The GAO reports that GE was one of the largest issuers of commercial paper at the time, GE was one of the companies that the New York Fed consulted when creating the emergency program, and the CEO of GE himself was instrumental in making the decisions to transfer massive amounts of public wealth to GE.

In another case, the CEO of JP Morgan Chase served on the Federal Reserve Bank of New York's board of directors "at the same time that his bank participated in various emergency programs and served as one of the clearing banks for emergency lending programs."[22] JP Morgan's central role in the 2008 bailout was contemporaneous with JP Morgan's CEO sitting on the board of directors of the New York Fed. ProPublica reported that JP Morgan received $25 billion in funds from various parts of the emergency assistance program, and an additional $1.6 billion through its home mortgage arm as a result of Federal Reserve Bank actions. The $25 billion has since been repaid, but the $1.6 billion was never expected to be since it was not a loan.[23]

Conclusion

Despite its mandate to serve an apolitical function, strong evidence shows that the Federal Reserve is susceptible to the influence of political lobbying. The Federal Reserve is the target of extensive lobbying, the financial sector spends millions of dollars every year lobbying the Federal Reserve, and the Federal Reserve meets regularly and frequently with financial industry lobbyists who shape its policies. The decision makers of the Federal Reserve are affiliated with

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[19] Goodhart, Lucy M. "Brave New World? Macro-Prudential Policy and the New Political Economy of the Federal Reserve." *Review of International Political Economy*, May 22, 2014, 1–31. Available at http://www.tandfonline.com/doi/pdf/10.1080/09692290.2014.915578

[20] http://www.gao.gov/products/GAO-12-18

[21] http://www.propublica.org/article/general-electric-tapped-fed-to-borrow-16-billion

[22] http://www.gao.gov/products/GAO-12-18

[23] http://projects.propublica.org/bailout/entities/282-jpmorgan-chase

or employed by the financial sector and corporate interests, and they continue to maintain these affiliations as they carry out their Bank responsibilities. Multiple examples as well as empirical studies analyzing Fed behavior in the aggregate demonstrate that the Federal Reserve not insulated from political pressure and is in fact significantly influenced by lobbying.