Monetary Policy and the Financial CHOICE Act

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If enacted, the Financial CHOICE Act will eliminate many provisions of the 2010 Dodd-Frank Act that affect the operations of the Federal Reserve which will alter its ability to fulfill its core functions to conduct monetary policy and act as the lender of last resort. In this essay, we discuss how the rules imposed and the oversight over the conduct of monetary policy will hamper the Fed's ability to conduct monetary policy independent of political interference.

Our concern about the CHOICE Act's procedures for the direction and oversight of monetary policy is threefold: it diminishes central bank independence; it diminishes the incentive of monetary policymakers to choose what they believe to be the optimal policy setting if it deviates from the benchmark rule specified in the Act; and it could increase, rather than reduce, uncertainty about policymaking.

These proposed changes would move the United States away from the model of central bank independence with a commitment to politically determined policy objectives. The Act potentially takes governance of the world's most important central bank down to a political level that is found today only among failed or failing states. Moreover, with the elimination of SIFI and FMU designations, and the removal of the Orderly Liquidation Authority, it is not clear that the United States will have the institutions needed to prevent or contain a future financial crisis.