POLITICS SYMPOSIUM

The Study of the Federal Reserve and Power in American Politics

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In their contributions to this symposium, Christopher Adolph, Sarah Binder and Mark Spindel, and Larry Jacobs and Desmond King make forceful and persuasive calls for scholars of American politics to study monetary policy and central banking. Their case is based on both the Federal Reserve's importance as a political institution and the Fed's broader consequences for the distribution of economic resources in the United States. This article argues for another benefit that a close study of the Federal Reserve can provide: shedding light on how political power is exercised in US politics. The research summarized in this symposium underscores the subtle ways that power can flow through American government—and suggests methods and approaches for detecting that influence.

The following sections summarize three such mechanisms of power and reflect on their broader importance for the study of the Federal Reserve and for American politics. These mechanisms are (1) how institutions can be constructed in ways that magnify political advantage over time; (2) how powerful actors can seed the creation of concepts and research that entrench their privileged positions; and (3) how private-sector interests, by virtue of their structural position in the economy, can exert pressure on governmental agendas.

LOCKING IN POWER THROUGH INSTITUTIONAL DESIGN

A central conclusion of both *The Myth of Independence: How Congress Governs the Federal Reserve* (Binder and Spindel 2017) and *Fed Power: How Finance Wins* (Jacobs and King 2016) is that the Fed has accumulated significant political authority since its creation in 1913. Some sources of this clout were the result of past policy ironies, such as the Fed's decentralized structure. As Binder and Spindel (2017) pointed out, decentralization into 12 regional banks initially limited the Fed's power to respond to economic crises. However, it also "hardwired political support for the Fed in communities far from Wall Street and Washington," ensuring constituencies for the Fed's later clout within Congress (Binder and Spindel 2017, 81). Other expansions of Fed power reflect creative reinterpretations of old rules. This happened when the Fed used an emergency clause originally granted by Congress in Great Depression–era reforms to aggressively "reinvent its role" during its response to the Great Recession (Jacobs and King 2016, 30).

Still other changes to Fed structure, however, were more intentional. For example, the bank pushed Congress to exempt itself from certain disclosure requirements during government-oversight reforms and arranged its operations in ways that shielded itself from regular public scrutiny (Jacobs and King 2016, 33–6 and 80). To be sure, the Fed produces substantial information about economic conditions and its own decisions after the fact. However, as Jacobs and King emphasized, the Fed designed itself in ways that continue "to control how and what is released publicly" (Jacobs and King 2016, 34).

The Fed's opacity, then, is deliberate. Moreover, it is an excellent example of how political actors—such as the bureaucrats running the Fed—can entrench their political power through institutional design. This is a clear exercise of the second or "hidden" face of power, with the Fed's leaders making it more difficult for their opponents (and potential opponents) to mobilize. This type of agenda-setting authority all too often is neglected by contemporary scholars of American politics, even as it was an important part of debates about pluralism in the 1970s and 1980s.[1] It reminds us that a lack of visible political conflict does not necessarily imply a consensus of interests or equality of power. Before skeptics can even contemplate action to question the Fed's activities, they need an understanding of what the Fed actually has done. However, if the Fed does not make that information available, policy change is difficult, if not impossible.

Paying attention to this second or hidden face of power also can resolve a tension in the commentaries about the Fed's relationship with Congress. On the one hand, Binder and Spindel (2017) argued that Congress exerts influence over the Fed's decisions. Especially during periods of higher unemployment or inflation, Congress is more likely to consider legislation regulating the Fed's activities. Jacobs and King (2016), on the other hand, made the case that such congressional oversight is mostly a sideshow. Instead, they argued that the Fed managed to maintain and grow its autonomy over time, unmoored from significant political accountability.

Who is right? Conceiving of political power as agenda control, we might think that the congressional action that Binder and Spindel described falls under the first face of power, whereas the inaction described by Jacobs and King is better captured under the second face. It well may be that on the issues that make it to the congressional agenda—those described by Binder and Spindel—Congress is able to engage in meaningful oversight and control. However, there also is a broader set of issues on which Congress cannot take action because of a lack of information or because the issues are not considered actionable by Congress in the first place. It is only by combining both perspectives that we obtain a complete picture of the Fed's relationship to Congress.

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This example also emphasizes two more general points for students of American politics trying to detect power. First, building on the work of Moe (1995; 2005), it reminds scholars of the ways that political institutions reflect not only mutually beneficial compromises but also explicit choices by powerful actors to impose their preferences on losers for years to come.[2]

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Second, building on the policy-feedback literature, the example from the Fed shows how government institutions can confer resources on citizens and organized interests that not only encourage *greater* political participation and engagement, as in the quintessential positive-feedback account. Government policies also can intentionally *demobilize* constituencies by erecting barriers to participation (I describe this elsewhere as using policy feedback as "political weapon"; see Hertel-Fernandez 2018).

RESHAPING THE TERRAIN OF IDEAS

The Fed's power arises not only from the institutional insulation it has erected around its decision making. The research covered in this symposium also emphasizes a second important mechanism of power: the *ideational* and *conceptual* control that the Fed exerts over discussions of monetary and regulatory policy. Carpenter (2010, 64) described this type of regulatory authority as the ability of a "governing organization to shape fundamental patterns of thought, communication, and learning by its formal and informal definition of concepts, vocabularies, measurements, and standards."

Studying the Food and Drug Administration, Carpenter discussed how the agency's invention of concepts such as "Phase 2 trials" and "bioequivalence" constrain the behavior and choices of regulated entities well beyond its official regulatory decrees. In a similar vein, the Fed created its own constellation of concepts relevant to its monetary policy and regulatory oversight. Examples include its open-market operations, reserve requirements imposed on banks, the "natural" rate of unemployment, inflation targets, and—perhaps most important—its independence in choosing the means by which it implements its goals (Binder and Spindel 2017, 225). These concepts undoubtedly shaped how financial institutions and other policy makers (primarily Congress) perceived possibilities for action, and they merit further study on their own.

In addition, an even more intriguing source of power that is mentioned but not fully explored in *Fed Power* and *The Myth of Independence* is the Fed's role in setting the terms for research on topics related to its work. In the decades since its creation, the Fed has grown from a modest staff to one of the largest employers of PhD-trained economists (with more than 300 at the Federal Reserve Board).[3] In addition, the Fed offers $400 million each year to researchers for work related to "monetary and economic policy" as well as countless other opportunities for conferences, workshops, and events for academic economists to attend, present their work in progress, and share data and findings (Jacobs and King 2016, 44–5; see also Grim 2013). Jacobs and King were careful to state that the Fed's central position in economic research has the *potential* to reshape the incentives of academics. In doing so, however, they pose a useful analogy to pharmaceutical research: How comfortable would we feel if most of the research on a particular drug was supported either indirectly or directly by the lone manufacturer of that drug?

We well may think of this ideational power as another exercise of the Fed's agenda-setting authority. By shifting the incentives and norms surrounding academic work on monetary and regulatory policy, the Fed has the capacity to "shape the agenda of contemporary economic research" (Jacobs and King 2016, 45). Further work in this area might build on Fourcade's framework that connects state institutions to the evolution of the economics profession, as well as new economic research using text analysis that has uncovered the latent political ideologies embedded in different subdisciplines, departments, and journals in economics research (Fourcade 2009; Jelveh, Kogut, and Naidu 2015). How has the Fed's reach into academic economics shaped the discipline? Can we detect systematic differences in research from individuals and institutions that have had closer relationships with the Fed?

Another important research question into ideational power is how the Fed's support of economic research extends beyond the academy to shape popular discourse. Binder and Spindel (2017, chap. 2) argued that Congress is responding directly to the mass public by either reining in or delegating to the Fed. Jacobs and King (2016, chap. 4), for their part, examined historical polling data to suggest that the public generally has lost confidence in the Fed's authority, especially in recent years. However, left unexamined by both contributions is what the mass public considers the actual responsibilities of the Fed to be—and the role the Fed itself has played in defining those responsibilities for the public in the first place.

This is an especially important question given the close connection between the Fed and inequality, as shown in this symposium's contributions. Jacobs and King demonstrate that the Fed has been a major driver of income concentration at the very top of the income distribution, and Adolph presents compelling evidence that Fed tightening in recent decades has disproportionately disadvantaged lower-income households (see also Bernstein and Baker 2003). We know from past research in public opinion that Americans are concerned about mounting inequalities of income, wealth, and opportunity—and that their perceptions of inequality are strongly shaped by the media (see, e.g., McCall 2013).

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Therefore, do Americans connect the Fed to rising inequalities and stagnating incomes—and, if not, does the Fed's own discourse, mediated by politicians and the news media, play a role in this disconnect?

The Fed's role in driving academic research and discourse about central banking is a useful reminder for Americanists that political influence need not be confined to elections and legislative skirmishes. Organized interests seeking long-term policy change can have significant effects on politics by investing in shifting the overall terrain of ideas.[4] Tellingly, for instance, two of the arguably most successful donors in contemporary American politics—the billionaire industrialists Charles and David Koch—operate with a model of political change that prioritizes the production of new ideas, narratives, and theories. "Politicians, ultimately, are just actors playing out a script. The idea is, one gets better and quicker results aiming not at the actors but at the scriptwriters, to help supply the themes and words for the scripts," summed up one long-time Koch affiliate about the brothers' philosophy (quoted in Doherty 2007, 410). Political scientists would do well to consider how political entrepreneurs—whether bureaucrats or activist donors—can reshape academic research and the discourse behind policy ideas and proposals.

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REVIVING THE STRUCTURAL POWER OF BUSINESS

The final pathway of influence that the symposium's contributions emphasize involves the structural power of private-sector firms in a capitalist democracy. The notion that public officials have a structural dependency on certain private-sector interests was well developed by pluralists-turned-critics Robert Dahl and Charles Lindblom. In one memorable formulation, Lindblom argued that private-sector businesses hold a "privileged position…in the political system of all market oriented societies" (Lindblom 1982, 326). Because businesses are ultimately responsible for a significant amount of employment and economic growth, "any change or reform [corporate executives] do not like brings to all of us the punishment of unemployment or a sluggish economy" (Lindblom 1982, 327). This means that politicians will be loath to take actions that they anticipate will bring about economic (and thus political) losses—and that business leaders, unlike other political interests, have a powerful veto over potential governmental reforms. The political agenda, then, generally will bend toward the policy preferences of the private sector, especially at moments when threats of job loss and capital strikes from businesses are more credible.[5]

Whereas comparative political economists have fruitfully deployed theories of structural business power to explain outcomes such as the generosity of bank bailouts in the last recession, Americanists have been slower to revisit this concept (see, e.g., Culpepper and Reinke 2014). A reinvigorated focus on the politics of the Fed provides an excellent entry point into thinking through the ways that structural business power operates in US politics, especially given the primacy of the financial sector in the overall political economy.

Jacobs and King address these ideas in their contribution, pointing out that this is a mechanism for political influence that goes beyond the "revolving door" or even bureaucrats' cultural capture—issues that Adolph develops in his contribution.[6] Rather, the financial sector's structural power draws our attention to the way in which state officials at the Fed depend on the growth and vitality of the financial sector for their own institutional autonomy. This influence is direct because the Fed generates its revenue through its financial-market transactions. However, it also is indirect because the Fed fends off more invasive efforts at oversight by bypassing the vagaries of the congressional-appropriations process.

An important question left unanswered by the symposium's contributions is how the revolving-door and cultural-capture mechanisms for financial-sector influence—which Adolph outlines in his article—interact with the structural power of finance explored by Jacobs and King. Are these different mechanisms for political influence complements or substitutes for one another? When and under which conditions is each mechanism more likely to be effective? Here, comparative evidence from other countries and other public agencies within the US government would provide variation on which to answer these questions.

POLITICAL POWER, THE FEDERAL RESERVE, AND THE STUDY OF AMERICAN POLITICAL ECONOMY

The contributions to this symposium show how US-focused political scientists have a substantial blind spot concerning the Federal Reserve. For far too long, Americanists have internalized the broader rhetoric of central-bank independence and assumed that the operation of the American central bank was relatively free from politics. That blind spot, however, has had substantial costs. It neglected the contribution of the Federal Reserve to important economic outcomes, such as rising inequality, especially at the very top of the income distribution. It also ignored the interplay between electoral pressures and congressional efforts at oversight of the Federal Reserve. Moreover, it overlooked the distinctive and codependent relationship between an increasingly autonomous Federal Reserve and a growing financial sector. The articles and research in this symposium illuminate the Fed's

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role in all three of these areas of American political and economic life.

As described in this article, I also believe a close study of the Federal Reserve promises to help political scientists to peer across the "hidden" faces of power present in the American political system that shape outcomes beyond outright political conflict. As the research summarized in this symposium indicates, such an approach often requires putting individual institutions front and center and examining how they evolve over time, paying close attention to the broader political, social, and economic context in which they operate. It is only by doing so that scholars are able to capture the traces of power exerted through non-decisions, agenda control, and shifting preferences and incentives of political actors.[7] Future work in this vein—on both the Fed and the broader set of political institutions that structure the American economy—promises to yield substantial theoretical and practical benefits. ■

NOTES

1. See especially Bachrach and Baratz (1962) and Lukes (2005). See also Crenson (1971) and Pierson (2015) on the evolution of these debates in American politics.
2. See also Mahoney and Thelen (2009, 8) on the concept of institutions as "distributional instruments laden with power implications."
3. See www.federalreserve.gov/econres/theeconomists.htm.
4. On the Koch political network, see Skocpol and Hertel-Fernandez (2016).
5. On variation in structural power over time, see Hacker and Pierson (2002).
6. Adolph (2013). On cultural capture, see also Kwak (2014).
7. On the importance of using historical–institutional methods for studying power, especially the "hidden" faces of power, see Pierson (2015).

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