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Federal Reserve Independence

The Federal Reserve (Fed) is more independent from Congress and the President than most agencies are. Theory and evidence support the view that independence facilitates a less political, longer-term perspective to monetary policymaking that generally leads to better long-run economic outcomes, such as lower inflation. The trade-off is less congressional and executive input into and oversight of its actions. President Trump has taken multiple steps that seek to reduce the Fed's independence.

Sources of Independence

The Fed operates solely under the authority granted by Congress, which gave the Fed some structural characteristics that contribute to its independence. The Fed is self-funded and not subject to appropriations. The governors who lead the board serve long, fixed terms and may be removed only "for cause," a higher standard than the "at will" removal standard that applies to Cabinet members and most other political appointees. (The Federal Reserve Act is silent on the grounds for removal for the chair or vice chair beyond granting the positions fixed terms, although those individuals enjoy for-cause protection in their positions as governors.) The Fed's regional bank presidents are not appointed by the President, and the Fed's policies are not subject to Office of Management and Budget (OMB) review, unlike most other agencies.

Independence is a function not only of structural characteristics; it also stems from culture and norms, such as its tradition of nonpartisan decisionmaking based on consensus. Norms are a reflection of history, tradition, and the actions of individuals who have led the institution, and they are not immutable—particularly when leadership changes.

Recent Actions

In February 2025, President Trump issued an executive order (E.O.) "to ensure Presidential supervision and control of the entire executive branch" that sought to reduce the independence of regulatory agencies such as the Fed. The E.O. ordered OMB to establish performance standards and management objectives for independent agencies and to review their "obligations for consistency with the President's policies and priorities." The E.O. also instructs agencies to submit proposed and final rules to OMB for review and approval prior to issuance. The E.O. included an exception for monetary policy, implying that the Fed could independently conduct monetary policy while its regulatory duties would be under the purview of the President. Because the same leadership is responsible for setting both, it is unclear how this delineation could be effectively maintained in practice—the Administration could potentially use its influence over the Fed's regulatory policy to pressure the Fed on monetary policy.

Given the Fed's independent status, it is unclear which, if any, executive orders the board or the Fed banks are required to comply with. At a press conference on January 29, 2025, Fed Chair Jerome Powell said that "we're reviewing the orders and the associated details as they're made available. And, as has been our practice over many administrations, we are working to align our policies with the executive orders as appropriate and consistent with applicable law." The Fed has taken actions consistent at least in part with some, but not all, of President Trump's executive orders, including a hiring freeze and staff reduction; a return to in-person work; and ending diversity, equity, and inclusion and climate change initiatives. OMB's database on rules under review does not include any entries for the Fed.

Breaking with tradition, the President has been publicly vocal in his criticism of the Fed's monetary policy decisions (preferring the Fed reduce rates more rapidly) and has called for Chair Powell to resign. He has reportedly considered whether cost overruns of a building renovation project would constitute for-cause grounds for dismissing Powell. No President has ever removed a chair in the past, although there is a case where the chair (Thomas McCabe) resigned at the request of the President (Truman).

The President has also taken a number of steps to change the composition of the board. Michael Barr stepped down as vice chair for supervision in January 2025—before his term had ended—to avoid a potential legal challenge over whether the President could remove him. (Governor Michelle Bowman replaced him as vice chair in June.) In August 2025, President Trump attempted to dismiss Governor Lisa Cook for cause on the grounds that she purportedly falsified a mortgage application before she was governor. Litigation surrounding that attempt is ongoing. In addition, the Supreme Court is hearing a case on the constitutionality of for-cause removal. In September 2025, the President nominated and the Senate confirmed Stephen Miran to the board. Unusually, Miran testified in his nomination hearing that he would be taking a paid absence from his position as chair of the President's Economic Advisers while he served at the Fed. Since becoming governor, Miran dissented from each interest rate vote in 2025 in favor of reducing rates more aggressively.

Some observers are concerned that the President intends to replace Powell at the end of his term in May 2026 (or sooner) with a new chair who will not act independently. For example, President Trump said that a litmus test for his nominee will be whether he or she would immediately lower interest rates. The fact that the Fed has repeatedly reduced rates since 2024 when inflation has remained above target could be viewed as it acting less independently, although the Fed has justified its actions on economic grounds (mainly, to reverse the slowdown in job growth).

Economics of Independence

Congress has set the broad goals of monetary policy but has given the Fed broad discretion to choose the policies to best achieve them. There is a tension between the short-term and long-term effects of monetary policy—lower interest rates are believed to reduce unemployment more quickly than they raise inflation. Economists view central bank independence as leading to better monetary policymaking: Subject to less short-term political pressure, the central bank can choose policies that are optimal under a longer-term horizon. Many economists believe that this results in lower and more stable inflation, because an independent central bank is more willing to raise interest rates to reduce inflation and less tempted to reduce rates to run the economy hot before an election. This potentially creates a virtuous cycle where independence enhances the Fed's credibility in the eyes of market participants, thereby making policy more effective by anchoring low inflation expectations among the public. By contrast, decades of high inflation episodes abroad share the common feature that central banks have been subordinated to the head of government.

The economic argument for independence is not predicated on an assumption that technocratic, nonpolitical experts are better qualified to make good decisions. That may or may not be true—the Fed's track record is not perfect. Instead, the argument is based on the different incentives that policymakers face when they are shielded from short-term political factors.

In addition to monetary policy, the Fed also has (shared) responsibility for bank regulation. The relationship between independence and outcomes in regulation is less clear cut, as regulatory policy inherently faces political trade-offs. The Fed's regulatory policy has typically followed shifting political winds more closely.

Independence and Oversight

As noted above, the Fed's independence reduces democratic input into and oversight of its actions by Congress or the Administration. Conversely, a potential consequence of closer oversight is that it could reduce the Fed's independence. The challenge for Congress is to strike the right balance between a desire for the Fed to be responsive to Congress and a desire for the Fed's decisions to be immune from short-term political calculations. Congress has delegated monetary policy responsibilities to the Fed, and one consequence of a less independent Fed would be greater executive control over monetary policy.

Critics of the Fed have long argued for more oversight, transparency, and disclosure. Criticism intensified following assistance provided to financial firms during the 2008 financial crisis; the failure of the Fed-regulated Silicon Valley Bank in 2023 (the third-largest bank failure in U.S. history); and trading scandals involving several Fed presidents and governors, including Governor Adriana Kugler in 2025. Some critics downplay the degree of Fed oversight and disclosure that already takes place. Some studies rank the Fed as one of the more transparent central banks. Although oversight and disclosure are often lumped together, they are separate issues. Oversight entails independent evaluation of the Fed; disclosure is an issue of what internal information the Fed releases to the public. Disclosure helps Congress and the public better understand the Fed's actions.

For oversight, the Fed is required to provide a written report to and testify before the committees of jurisdiction semiannually. In addition, these committees periodically hold more focused hearings on Fed topics. Critics have sought a Government Accountability Office (GAO) audit of the Fed. The Fed's financial statements are annually audited by private sector auditors. Contrary to popular belief, GAO has periodically conducted Fed audits since 1978, subject to statutory restrictions, and a GAO audit would not, under current law, identify institutions that have borrowed from the Fed or the details of other transactions. GAO can audit Fed activities for waste, fraud, and abuse, and it has periodically released investigative reports on the Fed. Effectively, statutory restrictions prevent GAO from evaluating the economic merits of Fed policy decisions. The Fed has opposed past legislation to remove GAO audit restrictions, arguing that it would "politicize monetary policy."

For disclosure, the Fed has publicly released extensive information on its operations, mostly on a voluntary basis. It is statutorily required to release an annual report and a weekly summary of its balance sheet. In December 2010, the Dodd-Frank Act (P.L. 111-203) required the Fed to release individual lending records, revealing borrowers' identities and loans' terms, for emergency facilities, the discount window, and open market operation transactions with a lag. More recently, congressional attention has shifted to greater disclosure surrounding Fed supervision.

Up to a point, disclosure makes monetary and regulatory policy more effective, but too much disclosure could make both less effective, because they rely on confidential, market-moving information. A drawback to publicizing the names of borrowers is that it could potentially stigmatize them in a way that causes runs on those borrowers or causes them to shun access to needed liquidity. Either outcome could result in a less stable financial system. A potential benefit of publicizing borrowers is to safeguard against favoritism or other conflicts of interest.

Legislation in the 119th Congress

The Senate Homeland Security Committee held a hearing on S. 2327, which would remove statutory restrictions on GAO audits of the Fed and require a GAO audit.

On June 6, 2025, Chairman Tim Scott released a proposal for the Senate Banking Committee's response to its reconciliation directives. It included a provision to set the pay of board employees who do not work on monetary policy at 70% of Federal Deposit Insurance Corporation employee pay. It was not included in the final version of the FY2025 reconciliation act (P.L. 119-21).

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