

**Paul A. Volcker Lecture Series  
Yale School of Management  
Program on Financial Stability**

**Lecture 1:**

**What Would Paul Volcker Think?**

**Independent Monetary Policy, Financial Regulation, and the  
Stakes for U.S. Financial Stability**

**Martin J. Gruenberg  
Lecturer in Management  
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## **Introduction**

It is an extraordinary honor to give the first Paul Volcker Lectures at the Yale School of Management's Program on Financial Stability.

I would like to thank the sponsor of the lecture series – the Volcker Family Foundation - and its leaders – Anke Volcker, President, and Tony Dowd, Vice President - for that honor. I would also like to acknowledge James Volcker, Chairman Volcker's son, who honors us with his presence here today.

I would also like to thank Professor Andrew Metrick – the Founder and Director of the Yale Program on Financial Stability – for his support of the lecture series and for his visionary leadership of the Program.

I would also like to acknowledge research assistance I received from Sabyasachi Sarangi, a student in the Masters of Systemic Risk Program, and Arohi Nair, a junior in the undergraduate program.

Paul Volcker was one of the extraordinary figures of our time.

He literally and figuratively towered over the world of finance for nearly half a century.

He was unique in commanding global respect for his strong leadership, intellect, integrity, and dedication to public service.

He of course was best known for his government service as Chairman of the Federal Reserve, President of the Federal Reserve Bank of New York, and Under Secretary of the Treasury for Monetary Affairs.

But it is important to know, particularly in the context of the current moment, where he came from.

Paul Volcker grew up in Teaneck, New Jersey.

His father, Paul Volcker Sr., served as city manager of Teaneck for twenty years. He was a career civil servant who believed deeply in the value of professional public management.<sup>1</sup>

So did his son. It was a core value. It is worth remembering that Paul Volcker, Jr.'s graduate work at Harvard was in the School of Public Administration. Although, as he pointed out in his memoir, he could take all the economics courses he wanted.<sup>2</sup>

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<sup>1</sup> Paul A. Volcker, *Keeping at It: The Quest for Sound Money and Good Government* (New York: PublicAffairs, 2018), 7.

<sup>2</sup> Volcker, *Keeping at It*, 22.

The Volcker Alliance, a nonprofit he founded in 2013, is dedicated to advancing his vision of an empowered public sector workforce at the local, state, and federal level.<sup>3</sup>

His other core value was financial stability, on which the performance of the economy depends. Central to that was independent monetary policy and financial regulation.

Paul Volcker's core values are under assault today as never before in the post-World War II period.

Civil service across the federal government has suffered unprecedented reductions in staffing and loss of expertise. Beyond that, the value of public service and the character of public servants have been disparaged and demeaned. The federal financial regulatory agencies -Federal Reserve, OCC, FDIC, CFPB, SEC, CFTC, NCUA, FHFA - have been one of the targets.<sup>4</sup>

In addition, there has been an extraordinary effort to subject both monetary policy and financial regulation to political direction.

Further, there is underway a dramatic and coordinated weakening of financial regulation, supervision, and enforcement across all of the responsible federal agencies.

Taken together this represents a multi-pronged attack on the foundations of monetary policy and financial regulation in the United States and a serious threat to U.S. financial stability.

We should be clear about what is at stake. If this extreme deregulatory agenda and the broader undermining of financial regulatory institutions is not reversed, then at some point we will face a financial crisis as a result. Further, the institutions we rely on to manage such crises will not have the staff experience, expertise, and resources needed to limit the costs to the financial system, the economy, and the public.

If Chairman Volcker were here today, there is little doubt he would be raising the alarm in regard to all of these developments.

It seems to me appropriate, therefore, for this first series of lectures in honor of Chairman Volcker, to raise that alarm.

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<sup>3</sup> The Volcker Alliance, "About Us," *VolckerAlliance.org*, accessed April 3, 2026, <https://www.volckeralliance.org/about-us>.

<sup>4</sup> The term "federal financial regulatory agencies" refers to the Board of Governors of the Federal Reserve System (Federal Reserve or Fed), Office of the Comptroller of the Currency (OCC), Federal Deposit Insurance Corporation (FDIC), Consumer Financial Protection Bureau (CFPB), Securities and Exchange Commission (SEC), Commodity Futures Trading Commission (CFTC), National Credit Union Administration (NCUA), and Federal Housing Finance Agency (FHFA).

Today's lecture will focus on the issue of independence of both monetary policy and financial regulation from political direction, which Chairman Volcker viewed as foundational to responsible policymaking.

The second lecture will address how the loss of independence is resulting in the severe weakening of financial regulation, supervision, and enforcement at all of the responsible federal agencies, as well as the devastating workforce reductions. My focus will be on the federal banking agencies.

The third lecture will look forward to the critical first steps that will need to be taken to repair the damage being done. In addition, beyond damage repair, it will discuss some of the other key financial stability risks that need to be addressed.

Let me begin today with the issue of independence from political direction, the threshold issue for Chairman Volcker, both for monetary policy and financial regulation.

## **Monetary Policy Independence**

### **Paul Volcker on Monetary Policy Independence**

Paul Volcker was clear and unequivocal in his view of the importance of independent monetary policy.

In August 2019 he co-authored an article with three of his successors as Federal Reserve Chair – Alan Greenspan, Ben Bernanke, and Janet Yellen – which stated:

“We are united in the conviction that the Fed and its chair must be permitted to act independently and in the best interests of the economy, free of short-term political pressures and, in particular, without the threat of removal or demotion of Fed leaders for political reasons.”<sup>5</sup>

Chairman Volcker’s view was reaffirmed as recently as this year in a statement by the Volcker Alliance.<sup>6</sup>

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<sup>5</sup> Paul A. Volcker, Alan Greenspan, Ben S. Bernanke, and Janet Yellen, “America Needs an Independent Fed,” *Wall Street Journal*, August 5, 2019, <https://www.wsj.com/articles/america-needs-an-independent-fed-11565045308>.

<sup>6</sup> The Volcker Alliance, “A Statement from the Volcker Alliance,” January 13, 2026, <https://www.volckeralliance.org/>.

As former Federal Reserve Chairman Ben Bernanke said of Chairman Volcker, “He came to represent independence. He personified the idea of doing something unpopular but economically necessary.”<sup>7</sup>

In order to understand the basis for this view, it is helpful to look at the historical evolution of the independence of the Federal Reserve.

### *The Evolution of Federal Reserve Monetary Policy Independence*

#### The Federal Reserve Act of 1913

The Federal Reserve was established in 1913 following a series of financial panics – the Panic of 1873, the Panic of 1893, and the Panic of 1907. You get the idea. Without a central bank, it was up to the banking industry, led by the financier J.P. Morgan, to bail the country out of the latter two crises.<sup>8</sup>

Reliance on ad hoc private sector rescues was not viable for a country with a rapidly growing economy and banking system.

So, in 1908, the Aldrich-Vreeland Act was passed which, among other things, established a National Monetary Commission to recommend changes to the US monetary and banking systems. The work of this commission ultimately led to the adoption of the Federal Reserve Act of 1913.<sup>9</sup> The Act created the Federal Reserve System made up of a Board in Washington and 12 Federal Reserve District Banks.<sup>10</sup>

The early Fed was a shadow of the institution we know today. It was mired in internal struggles for control between the Federal Reserve Board in Washington and the district banks, which had much of the authority for the operations of the System.<sup>11</sup>

Further, the Act did not provide for a central bank truly independent of the executive branch of the government. Under the original statute, the Secretary of the Treasury served as the Chairman of the Federal Reserve Board and the Comptroller of the

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<sup>7</sup> Binyamin Appelbaum and Robert D. Hershey Jr., “Paul A. Volcker, Fed Chairman Who Waged War on Inflation, Is Dead,” *New York Times*, December 9, 2019, <https://www.nytimes.com/2019/12/09/business/paul-volcker-dead.html>.

<sup>8</sup> Federal Reserve History, “Banking Panics of the Gilded Age: The Panic of 1907,” *FederalReserveHistory.org*, accessed April 3, 2026, <https://www.federalreservehistory.org/essays/banking-panics-of-the-gilded-age>; see also Tim Todd, *The Balance of Power: The Political Fight for an Independent Central Bank, 1790–Present*, 2nd ed. (Kansas City, MO: Federal Reserve Bank of Kansas City, 2012), <https://www.kansascityfed.org/documents/191/balanceofpower-balanceofpower.pdf>.

<sup>9</sup> Federal Reserve History, “Before the Fed: The Historical Precedents of the Federal Reserve System,” *FederalReserveHistory.org*, accessed April 3, 2026, <https://www.federalreservehistory.org/essays/before-the-fed>.

<sup>10</sup> Federal Reserve Act, 12 U.S.C. § 221.

<sup>11</sup> Federal Reserve History, “The Fed’s Formative Years,” *FederalReserveHistory.org*, accessed April 3, 2026, <https://www.federalreservehistory.org/essays/feds-formative-years>; Todd, *Balance of Power*.

Currency, the national bank regulator, served as a member of the Board, both of whom served at the pleasure of the President.<sup>12</sup>

### The Banking Acts of 1933 and 1935

When the Great Depression hit approximately 9,000 banks failed between 1929 and 1933 and the money supply contracted sharply. The Fed was widely criticized for failing to respond.

Congress concluded that structural weaknesses contributed to this failure including fragmented authority between the Board in Washington and the district banks; insufficient centralized leadership capable of decisive national action; and institutional entanglement with Treasury priorities, particularly concerning federal debt management.<sup>13</sup>

Congress responded with the Banking Act of 1933, which established the Federal Open Market Committee – the FOMC – to coordinate monetary policy across the system, and the Banking Act of 1935, which introduced more fundamental reforms to the Fed structure. It removed the Secretary of the Treasury and the Comptroller of the Currency from the Board and replaced them with a designated Board Chairman and an additional Board member, nominated by the President and confirmed by the Senate. The Act also changed the title of Board members to “Governors”, extended member terms to 14 years, and made all members of the Board removable only “for cause” to insulate them from political pressure. The 1935 Act also finalized the structure of the FOMC, with the Federal Reserve Board in Washington controlling a majority of the votes.<sup>14</sup>

These structural changes created the statutory basis for Federal Reserve independence.

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<sup>12</sup> 12 U.S.C. § 221.

<sup>13</sup> Federal Reserve History, “The Great Depression,” *FederalReserveHistory.org*, accessed April 3, 2026, <https://www.federalreservehistory.org/essays/great-depression>; Todd, *Balance of Power*.

<sup>14</sup> Federal Reserve History, “Banking Act of 1935,” *FederalReserveHistory.org*, accessed April 3, 2026, <https://www.federalreservehistory.org/essays/banking-act-of-1935>; Gary Richardson and David W. Wilcox, “How Congress Designed the Federal Reserve to Be Independent of Presidential Control,” *Journal of Economic Perspectives* 39, no. 3 (Summer 2025): 221–38, <https://doi.org/10.1257/jep.20251447>.

## The Treasury-Federal Reserve Accord of 1951

But the Fed was slow to exercise this independence. As the United States entered into the Second World War, it had to grapple with the challenge of financing the government debt generated by the war effort—debt that surpassed 100 percent of GDP by the end of the war.<sup>15</sup>

Beginning in 1942 and lasting until 1951, the Fed supported wartime finance by pegging interest rates for US Treasury securities and purchasing Treasury bonds at the pegged rate. This was a prototypical example of “fiscal dominance” of the Fed, in which a central bank subordinates monetary policy to the fiscal needs of the government, with potential inflationary consequences.<sup>16</sup>

After World War II, the end of wartime price controls unleashed pent-up consumer demand producing a wave of inflation that had been suppressed during the war. This set the stage for a public conflict between Federal Reserve Chairman Marriner Eccles, who strongly opposed the interest rate peg, and President Truman, who wanted to continue cheap Treasury financing. When Eccles’ four-year term as chairman ended in 1948, Truman replaced him with Thomas McCabe, a businessman and former Roosevelt administration official who Truman believed would be more cooperative. After stepping down as chairman, Eccles chose to remain as a member of the Board of Governors.<sup>17</sup>

Resurgent inflation during the Korean War renewed the Fed’s push to end the peg. At the end of January 1951, President Truman summoned the FOMC to the White House for an unprecedented meeting in the Oval Office. He demanded that the Fed maintain the peg. The Fed, however, resisted the pressure. In February 1951, the FOMC announced its intention to remove the rate peg.<sup>18</sup>

In an effort to reconcile their differences, in late February the Treasury and Fed began to negotiate a compromise. On March 4, 1951, the Treasury and Fed issued a joint statement that read: “The Treasury and the Federal Reserve System have reached full accord with respect to debt management and monetary policies to be pursued in furthering their common purpose to assure the successful financing of the

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<sup>15</sup> Federal Reserve History, “From WWII to the Treasury-Fed Accord,” *FederalReserveHistory.org*, accessed April 3, 2026, <https://www.federalreservehistory.org/essays/wwii-to-the-treasury-fed-accord>; Todd, *Balance of Power*.

<sup>16</sup> Janet L. Yellen, “Remarks on the Future of the Fed: Central Bank Independence and Fiscal Dominance,” *Brookings Institution*, January 6, 2026, <https://www.brookings.edu/articles/remarks-by-janet-l-yellen-on-the-future-of-the-fed-central-bank-independence-and-fiscal-dominance/>.

<sup>17</sup> Federal Reserve History, “From WWII to the Treasury-Fed Accord”; Todd, *Balance of Power*.

<sup>18</sup> Federal Reserve History, “From WWII to the Treasury-Fed Accord”; Todd, *Balance of Power*.

Government's requirements and, at the same time, to minimize monetization of the public debt.”

In the minutes of the Fed's next meeting, this agreement was called the “Treasury-Federal Reserve Accord.” The minutes provided some additional context, stating “the Treasury and the Federal Reserve felt that everything possible should be done to terminate the unwholesome situation that had developed and to coordinate the debt management responsibility of the Treasury with the Federal Reserve responsibility for restraining credit expansion.”<sup>19</sup>

Federal Reserve Chairman McCabe, under pressure from President Truman, resigned shortly after the Accord was reached. Truman replaced him with William McChesney Martin, the top Treasury official for monetary policy, who had negotiated the Accord with the Fed. Despite the Accord, administration officials believed that Martin, having come from the Treasury, would continue to collaborate with the Treasury on matters of monetary policy.<sup>20</sup>

As it turned out, Chairman Martin would be very independent, much to the chagrin of President Truman. When Chairman Martin encountered President Truman after his appointment, the President had only one word for Martin – “Traitor.”<sup>21</sup> In his memoir, Chairman Volcker cites Chairman Martin as one of his heroes.<sup>22</sup>

Chairman Martin was the longest serving Chairman in the Fed's history, serving from 1951 until 1970. He really established, in practice, Fed independence in monetary policy.

Chairman Martin, however, was succeeded by two Fed Chairs – Arthur Burns and William Miller – who were responsive to Presidential direction and political pressure. It fell to Paul Volcker to reassert Fed independence when he became Chairman in 1979.<sup>23</sup>

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<sup>19</sup> Board of Governors of the Federal Reserve System, *Thirty-Eighth Annual Report of the Board of Governors of the Federal Reserve System Covering Operations of the Year 1951* (Washington, DC: Government Printing Office, 1952), 98.

<sup>20</sup> Federal Reserve History, “From WWII to the Treasury-Fed Accord”; Todd, *Balance of Power*.

<sup>21</sup> Federal Reserve History, “From the Treasury-Fed Accord to the Mid-1960s,” *FederalReserveHistory.org*, accessed April 4, 2026, <https://www.federalreservehistory.org/essays/treas-fed-accord-to-mid1960s>; Todd, *Balance of Power*.

<sup>22</sup> Volcker, *Keeping at It*, 35.

<sup>23</sup> Volcker, *Keeping at It*, 99-101; Federal Reserve History, “The Great Inflation, 1965–1982,” *FederalReserveHistory.org*, accessed April 4, 2026, <https://www.federalreservehistory.org/essays/great-inflation>; Todd, *Balance of Power*.

## Paul Volcker's Conduct of Monetary Policy

Between 1964 and 1980, inflation would spike from approximately 1% per year to more than 14%. Fiscal spending for the Vietnam War, the collapse of the Bretton Woods Accord and the end of the gold standard, and multiple oil crises resulted in an era of “stagflation” – a simultaneous increase in both inflation and unemployment.<sup>24</sup>

Despite the growing inflationary pressures in the 1970s, Fed Chairman Arthur Burns maintained accommodative monetary policies in part as a response to record unemployment and in part as a response to the political pressure associated with responding to inflation.

While being considered for nomination as Fed Chairman, Paul Volcker made clear in an interview at the White House that he “felt strongly about the independence of the Federal Reserve; the Fed would have to deal head-on with inflation; and that [he] would advocate tighter policies.” That night at dinner he told a friend, “I blew any chance of becoming Fed chair.”<sup>25</sup> As it turned out, President Carter nominated him anyway.

After becoming Chairman, he convinced the FOMC to engage in historic increases in interest rates, raising the effective fed funds rate to over 19% in the early 1980s. The increase in rates created stress throughout the economy, especially in the housing market and the agricultural sector, and precipitated a severe recession. The public response was intense. Members of Congress sought to impeach him, farmers circled the Federal Reserve Board building with tractors, homebuilders would mail 2x4 boards with messages asking for relief.<sup>26</sup>

It is important to note that Chairman Volcker benefitted from the support or at least the acquiescence of Presidents Carter and Reagan.<sup>27</sup>

Ultimately inflation began to ease, although at significant short-term economic cost. Chairman Volcker became celebrated for delivering two generations of low inflation to the United States with enormous long-term economic benefits. But that came later.

Since Chairman Volcker's tenure, every Fed Chairman – Alan Greenspan, Ben Bernanke, Janet Yellen, and Jay Powell – has faced political pressure to some extent. But I think it is fair to say the importance of Fed independence as it relates to monetary policy generally has been respected by successive administrations. Until now.

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<sup>24</sup> Federal Reserve History, “The Great Inflation, 1965–1982”; Todd, *Balance of Power*.

<sup>25</sup> Volcker, *Keeping at It*, 103.

<sup>26</sup> Volcker, *Keeping at It*, 109; Federal Reserve History, “The Great Inflation, 1965–1982”; Museum of American Finance, “2 × 4 Wood Mailed in Protest to Paul Volcker,” *The Fed at 100* (exhibit), accessed April 3, 2026, <https://www.moaf.org/exhibits/fed/100/volckerwood>.

<sup>27</sup> Volcker, *Keeping at It*, 111-113.

## An Unprecedented Attack on Monetary Policy Independence

As we've discussed, there have been presidents in the past who have influenced or tried to influence the Federal Reserve's conduct of monetary policy, including informally pressuring Federal Reserve Chairmen to leave before the end of their term. However, what we are currently experiencing is without precedent.

An effort was made to remove Federal Reserve Governor Lisa Cook from the Board of Governors, an action which has never occurred in the history of the Federal Reserve. The stated cause of the action was an alleged irregularity in a mortgage application. The more apparent purpose was to replace her with someone more responsive to the Administration's demand for lower interest rates. The matter is now pending before the Supreme Court.<sup>28</sup>

Federal Reserve Chairman Jay Powell has faced sustained personal attacks, grand jury subpoenas, and the threat of criminal prosecution. The personal attacks began after he declined to lower interest rates below what he believed the economic data would justify. The subpoenas and threat of prosecution relate ostensibly to testimony before Congress about the restoration of one of the Federal Reserve buildings, but the underlying purpose is apparent.<sup>29</sup>

Financial markets showed clear signs of concern following the threat of prosecution against Chairman Powell, as Treasury yields and market volatility surged.<sup>30</sup>

As Chairman Powell's term draws to an end in May, and a successor is confirmed, this Administration's actions may still impact the conduct of monetary policy going forward.

The intent is very clear and cause for concern. In light of that, it is particularly important at this time to understand why Federal Reserve independence in the conduct of monetary policy matters and the consequences of undermining that independence.

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<sup>28</sup> Erin Doherty and Dan Mangan, "Trump tells Fed's Lisa Cook she's fired; she says 'he has no authority to do so,'" *CNBC*, August 25, 2025, <https://www.cnn.com/2025/08/25/trump-fires-lisa-cook-fed-powell.html>.

<sup>29</sup> Jerome H. Powell, "Statement from Federal Reserve Chair Jerome H. Powell," Board of Governors of the Federal Reserve System, January 11, 2026, <https://www.federalreserve.gov/newsevents/speech/powell20260111a.htm>; Victoria Guida, Meredith Lee Hill, and Sam Sutton, "DOJ opens probe into Fed's Powell, drawing backlash from lawmakers," *Politico*, January 11, 2026, <https://www.politico.com/news/2026/01/11/doj-probe-fed-powell-statements-headquarters-00721679>.

<sup>30</sup> Sean Conlon and Sawdah Bhaimiya, "10-year Treasury yield ticks higher amid volatile session ...," *CNBC*, January 12, 2026, <https://www.cnn.com/2026/01/12/us-treasury-yields-fed-chair-powell-under-criminal-investigation.html>; Max Zahn, "Stocks close higher despite DOJ probe into Fed Chair Powell," *ABC News*, January 12, 2026, <https://abcnews.com/Business/stocks-fall-after-trumps-doj-opens-criminal-probe/story?id=129127081>.

### Why Monetary Policy Independence Matters

The history just outlined perhaps most clearly makes the case for a central bank with authority to conduct monetary policy independent of political direction.

The Fed's monetary policy decisions, by their nature, require long-term considerations of the direction of prices and employment, the twin statutory mandates of the Federal Reserve. Monetary policy operates with significant lags. Its effects on inflation and economic activity may not be apparent for months or years.

Political considerations, by contrast, are often driven by more immediate concerns such as short-term economic performance, financial market pressures, and government borrowing costs. It may not be in the long-term public interest, however, for these considerations to determine monetary policy.

That, fundamentally, is the basis for the statutory independence that the Federal Reserve has been given by the Congress – 14-year terms for members of the Board of Governors, the longest for any non-judicial Federal office, and Board member removal only “for cause”. It is also worth noting that the Fed does not receive funding through congressional appropriations, but instead derives income from the interest on securities it has acquired through its open-market activities.

In his memoir, Chairman Volcker underscored the historic importance of the decision in 1971 to end dollar convertibility into gold. The reason is that by delinking the dollar from gold, the United States was shifting domestic and international confidence in its currency from a commodity to an institution – the Federal Reserve.<sup>31</sup>

The economic expectations of domestic and international financial markets, and the public, largely depend on the confidence placed in the Federal Reserve's independent conduct of monetary policy. That confidence rests on the belief that the Fed will conduct monetary policy driven by long-term interests of price stability and employment, not short-term political considerations. If that confidence is shaken, it could have profound economic consequences.

Federal Reserve independence reduces market concerns of politically motivated vacillations in monetary policy. It creates a level of confidence in the market that allows the Fed to better anchor inflation expectations and provide credible forward guidance to market participants. That in turn results in reduced market volatility and lower inflation risk premiums than would otherwise be demanded from a Fed that lacked such policy

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<sup>31</sup> Volcker, *Keeping At It*, 222.

independence. Academic research has consistently found that independent central banks lead to better economic outcomes.<sup>32</sup>

Internationally, a loss of confidence in the ability of the Fed to independently manage monetary policy could impact the value of the dollar in both its use in international trade and as an international reserve currency. These impacts could have lasting effects on the market for U.S. Treasury securities and for foreign investment.<sup>33</sup>

There is a simple test of the value of Fed independence in monetary policy. Is it reasonable to believe that Chairman Volcker could have taken the difficult short-term actions necessary to break double-digit inflation in the early 1980s if he did not have the benefit of the Fed's monetary policy independence coupled with his own will to use it? That is a proposition that I fear is now being tested.

### **Financial Regulation Independence**

The principal arguments for monetary policy independence also apply to financial regulation independence.

Decisions relating to regulatory standards, supervision, and enforcement have long-term implications for safety and soundness, financial stability, consumer protection, and market competition. Large financial interests with significant political influence may be affected. Ideally, these determinations should be made independent of political pressures, based on the merits.

Three decades ago, global bank supervisors agreed on a set of core principles for bank supervision. Operational independence was then and remains today at the top of the list.

The Basel Core Principles emphasize the need for early intervention powers, exercised independently, to address risks building at a financial institution before those risks became systemic. The principles also make clear that achieving independence is not

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<sup>32</sup> Brief of Amici Curiae Former Treasury Secretaries et al. in Opposition to the Application to Stay the Preliminary Injunction, No. 25A312 (U.S. Sept. 25, 2025), 12, <https://www.supremecourt.gov>; William B. English, "The Federal Reserve, the New Administration, and the Outlook for the Economy and Monetary Policy," in *The Economic Consequences of the Second Trump Administration: A Preliminary Assessment*, ed. Gary Gensler, Simon Johnson, Ugo Panizza, and Beatrice Weder di Mauro (Paris and London: CEPR Press, December 2025), 200, [https://cepr.org/system/files/publication-files/252704-the\\_economic\\_consequences\\_of\\_the\\_second\\_trump\\_administration\\_a\\_preliminary\\_assessment.pdf](https://cepr.org/system/files/publication-files/252704-the_economic_consequences_of_the_second_trump_administration_a_preliminary_assessment.pdf).

<sup>33</sup> Gary Gensler, Lev Menand, and Joshua Younger, "The Financial Sector and Global Dollar System," in *The Economic Consequences of the Second Trump Administration: A Preliminary Assessment*, ed. Gary Gensler, Simon Johnson, Ugo Panizza, and Beatrice Weder di Mauro (Paris and London: CEPR Press, December 2025), [https://cepr.org/system/files/publication-files/252704-the\\_economic\\_consequences\\_of\\_the\\_second\\_trump\\_administration\\_a\\_preliminary\\_assessment.pdf](https://cepr.org/system/files/publication-files/252704-the_economic_consequences_of_the_second_trump_administration_a_preliminary_assessment.pdf).

easy. It relies on sufficient legal authority, a clear mandate, accountability through the democratic process, and adequate resources.<sup>34</sup>

The International Monetary Fund, when assessing national financial oversight frameworks, places particular emphasis on the willingness and ability of supervisory authorities to act in the face of political and other pressures not to act. Their work has shown that supervisory independence is a central determinant of financial stability across countries and time.<sup>35</sup>

The consequences for a financial system can be severe when that independence is lacking. One clear example is the global financial crisis of 2007-09. The Financial Crisis Inquiry Commission found that, while regulated financial institutions had dramatically failed to manage their risks, regulators had possessed the authority to identify and address many of those risks but failed to act effectively. A senior Federal Reserve supervisor told the Commission that it was difficult to challenge a large bank's risk management when that bank was earning billions of dollars every quarter. Without the willingness and ability to challenge excessive risk-taking, supervisors can't be effective.<sup>36</sup>

### "Independent" Financial Regulatory Agencies

Historically, Congress has structured a number of federal agencies as "independent agencies" to insulate them from political control. The purpose is to ensure that these agencies are guided by technical expertise and expert judgment, rather than short-term political pressures. In order to provide political balance to the governance of independent agencies, most by statute feature a bipartisan board of directors.

The first independent agency was the Interstate Commerce Commission (ICC) established in 1887 to address grievances regarding railroads. The implementing statute for the ICC provided for oversight by five commissioners appointed by the President to serve staggered 6-year terms. The statute provided that ICC commissioners could be removed by the president only for "inefficiency, neglect of duty, or malfeasance in office." In addition, no more than three of the serving ICC commissioners could hold the same political party affiliation. In 1914, the Federal Trade

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<sup>34</sup> Basel Committee on Banking Supervision, *Core Principles for Effective Banking Supervision* (Basel: Bank for International Settlements, April 25, 2024), <https://www.bis.org/bcbs/publ/d573.htm>.

<sup>35</sup> Tobias Adrian et al., "Financial Stability Needs Supervisors With the Ability and Will to Act," *IMF Blog*, September 18, 2023, <https://www.imf.org/en/Blogs/Articles/2023/09/18/financial-stability-needs-supervisors-with-the-ability-and-will-to-act>.

<sup>36</sup> Financial Crisis Inquiry Commission, *The Financial Crisis Inquiry Report: Final Report of the National Commission on the Causes of the Financial and Economic Crisis in the United States* (Washington, DC: U.S. Government Printing Office, 2011), xviii–xix, 53–54, 87–88, <https://www.govinfo.gov/app/details/GPO-FCIC>.

Commission (FTC) was created as an independent agency designed to promote consumer protection and to prevent unfair competition.<sup>37</sup>

The legislative templates for these agencies would be used to shape the design of future independent agencies, including the federal financial regulatory agencies. For example, as part of the response to the stock market crash and the ensuing banking crisis of the Depression, the number of independent agencies was expanded to include the Federal Deposit Insurance Corporation and the Securities and Exchange Commission.

### Humphrey's Executor

In the first challenge to agency independence, in 1933 President Roosevelt requested the resignation of FTC Commissioner William E. Humphrey whose policy positions were in conflict with the president's views. When Humphrey refused to resign, he was fired by the president. This was despite Section 1 of the FTC Act, which listed only "inefficiency, neglect of duty, or malfeasance in office" as the reasons a President could remove an FTC commissioner. After Humphrey's death, the executor of his estate argued that his removal from office was unconstitutional and sued the government for Humphrey's unpaid salary.

In the landmark case of *Humphrey's Executor v. United States*, the US Supreme Court drew a distinction between purely executive branch officers and officers of independent agencies. The Supreme Court unanimously held that the president's removal of Humphrey from office was invalid because the President did not have the constitutional power to remove officers of independent agencies for reasons other than those specified in legislation.<sup>38</sup>

*Humphrey's Executor* has been the governing law in regard to independent agencies until now.

The current administration has fired FTC Commissioner Rebecca Slaughter without cause. In *Trump v. Slaughter*, a federal district court has ruled in favor of Commissioner Slaughter finding her removal unlawful under the precedent of *Humphrey's Executor v. United States*. The Supreme Court has granted certiorari before judgment and stayed the lower court's reinstatement order, creating a fast track for consideration before the Supreme Court. Based on the tenor of the oral arguments on the case before the Court,

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<sup>37</sup> Interstate Commerce Act of 1887, ch. 104, 24 Stat. 379 (Feb. 4, 1887); see also National Archives, Interstate Commerce Act (1887), <https://www.archives.gov/milestone-documents/interstate-commerce-act>; Federal Trade Commission Act of 1914, ch. 311, 38 Stat. 717 (Sept. 26, 1914); Federal Trade Commission, *Our History*, <https://www.ftc.gov/about-ftc/history>.

<sup>38</sup> *Humphrey's Executor v. United States*, 295 U.S. 602 (1935).

the stage now appears set for the Supreme Court to overturn the Humphrey’s precedent based on a broad reading of executive authority under Article II of the Constitution.<sup>39</sup>

The administration has already removed two Democratic members from the board of the National Credit Union Administration without cause, and has thus far failed to nominate individuals to fill open Democratic seats at the Federal Deposit Insurance Corporation, the Securities and Exchange Commission, and the Commodities Futures Trading Commission.

### Executive Order 14215 - “Ensuring Accountability for All Agencies”

Of greatest immediate consequence, on February 18, 2025, the President signed Executive Order 14215, titled “Ensuring Accountability for All Agencies.” This executive order places all federal financial regulatory agencies, including the Federal Reserve in its regulatory capacity, under the explicit direction of the executive branch.<sup>40</sup>

The order states that all executive power is vested in the President and that the order is “to ensure Presidential supervision and control of the entire executive branch”, including independent agencies. The order requires all executive branch agencies, including independent agencies, to submit for review all proposed and final significant regulatory actions to the Office of Management and Budget (OMB).<sup>41</sup>

The order provides that the OMB Director shall establish performance standards and management objectives for independent agency heads. In addition, the OMB Director shall, on an ongoing basis, review independent agencies' obligations for consistency with the President's policies and priorities, and adjust such agencies' apportionments by activity, function, project, or object to advance the President's policies and priorities.<sup>42</sup>

Under the order, independent regulatory agency chairmen shall regularly consult with and coordinate policies and priorities with the Directors of OMB, the White House Domestic Policy Council, and the White House National Economic Council. Further, the heads of independent agencies shall establish a position of White House Liaison in their respective agencies.<sup>43</sup>

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<sup>39</sup> Lydia Wheeler and Jess Bravin, “Supreme Court to Reconsider Limits on President’s Power to Fire Top Officials,” *Wall Street Journal*, September 22, 2025; Ann E. Marimow, “Justices Seem Ready to Give Trump More Power to Fire Independent Government Officials,” *New York Times*, December 8, 2025.

<sup>40</sup> Executive Order No. 14215, *Ensuring Accountability for All Agencies*, 90 Fed. Reg. 10,447 (Feb. 24, 2025).

<sup>41</sup> Exec. Order No. 14215, *Ensuring Accountability for All Agencies*.

<sup>42</sup> Exec. Order No. 14215, *Ensuring Accountability for All Agencies*.

<sup>43</sup> Exec. Order No. 14215, *Ensuring Accountability for All Agencies*.

In addition, independent regulatory agency chairmen shall submit agency strategic plans to OMB for clearance. And, the President and Attorney General shall provide authoritative interpretations of law for the executive branch, controlling on all employees.<sup>44</sup>

There is no ambiguity here. Under this executive order, every federal financial regulatory agency is under explicit political control and direction. Combined with the expected Supreme Court decision overturning Humphrey's Executor, the political control of financial regulation will be complete and may not be reversible.

The consequences may be profound. Broad regulatory policy will be subject to political direction with serious risks to long-term financial stability. Supervisory and enforcement actions affecting individual institutions and persons may be subject to political influence, not to mention access to confidential supervisory information. This is an issue I will discuss at further length in tomorrow's lecture.

### *The Case of the Federal Reserve*

The Federal Reserve presents a particular complication because its responsibilities for both monetary policy and financial regulation cannot be functionally separated. That is a distinction provided for in the executive order, and is a distinction that the Supreme Court seems to be considering in the removal case of Federal Reserve Governor Lisa Cook.

Executive Order 14215 explicitly states, "This order shall not apply to the Board of Governors of the Federal Reserve System or to the Federal Open Market Committee only in its conduct of monetary policy. This order shall apply to the Board of Governors of the Federal Reserve System in connection with its conduct and authorities directly related to its supervision and regulation of financial institutions."

In addition, the Supreme Court in its review of the attempted removal of Governor Cook, may try to distinguish the Federal Reserve from other "independent" agencies based on the unique nature of its monetary policy responsibilities.

However, this may be complicated by the fact that for the Fed, monetary policy and regulatory policy are deeply intertwined.<sup>45</sup> Let me explain why.

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<sup>44</sup> Exec. Order No. 14215, *Ensuring Accountability for All Agencies*.

<sup>45</sup> Daniel K. Tarullo, "Can the Federal Reserve Be Split in Two?," Brookings Institution, October 10, 2025; Gary Genster and Lev Menand, "Presidential Supremacy Over Administrative Agencies," in *The Economic Consequences of the Second Trump Administration: A Preliminary Assessment*, ed. Gary Genster, Simon Johnson, Ugo Panizza, and Beatrice Weder di Mauro (Paris and London: CEPR Press, December 2025), 65.

Banking organizations are a primary conduit for monetary policy. It is through the deposit taking, lending, underwriting, and market making operations of banking organizations that the Fed effectively transmits its policy rate decision to the broader economy. Because of this, it not possible to effectively separate the conduct of monetary policy from core financial oversight and regulation.

Instruments of this oversight such as reserve requirements, discount window access, and capital and liquidity standards all have implications for the conduct of monetary policy beyond the setting of short-term interest rates. Subjecting the Fed's regulatory responsibilities to political direction effectively subjects monetary policy to political influence as well, raising all the issues previously discussed.

Among other concerns, this has serious implications for the Fed's ability to respond to financial crises. Information and expertise generate benefits across monetary policy and financial regulation, and both are critical to crisis management. Political control of one leads to control of the other, potentially compromising the Fed's ability to respond to severe financial stress.

### **Independence Requires Accountability**

It is critically important to understand that just because an agency has been given "independence" by its governing statute in carrying out its responsibilities does not mean it is unaccountable to the White House, the Congress, and the public.

Every board member of every independent agency must be nominated by the President and confirmed by the Senate for a fixed term.<sup>46</sup>

Every independent agency is subject to Congressional oversight, including testimony by its chairman and other board members.<sup>47</sup>

The Chairman of the Federal Reserve and the Vice Chairman for Supervision are required by law to testify before both houses of Congress twice a year. A public Monetary Policy Report and Financial Stability Report accompany each respective testimony.<sup>48</sup>

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<sup>46</sup> Maeve P. Carey and Henry B. Hogue, *Appointment and Confirmation of Executive Branch Leadership: An Overview*, CRS Report R44083 (Washington, DC: Congressional Research Service, March 17, 2021).

<sup>47</sup> U.S. Congress, *Congressional Oversight Manual*, CRS Report RL30240 (Washington, DC: Congressional Research Service, updated periodically).

<sup>48</sup> Federal Reserve Act § 2B, as amended by the Full Employment and Balanced Growth Act of 1978 (Humphrey-Hawkins Act), 12 U.S.C. § 225b; Board of Governors of the Federal Reserve System, *Monetary Policy Report* (submitted semiannually to Congress); Federal Reserve Act § 10B, 12 U.S.C. § 248; Board of Governors of the Federal Reserve System, *Financial Stability Report* (submitted semiannually to Congress).

The FOMC releases minutes of its meetings for public scrutiny three weeks after they occur, and the Federal Reserve Chairman holds a press conference after each meeting.<sup>49</sup>

The Federal Reserve and other independent agencies are subject to review by the Government Accountability Office (GAO) of the Congress and their respective Offices of Inspector General, including evaluations of policies and procedures and ex post examination of activities. Monetary policy is exempt from review.<sup>50</sup>

Rulemakings by independent agencies are subject to a public notice and comment process under the Administrative Procedure Act.<sup>51</sup>

These agencies are also subject to intense public scrutiny by the media.

It is not a perfect system, but one that attempts to strike a balance between public accountability and transparency in the conduct of public responsibilities and the independence necessary to carry out those responsibilities in the long-term public interest.

## **Conclusion**

The purpose of this lecture has been to lay out the facts and make the case that the independence of monetary policy and financial regulation is under serious attack. This has enormous implications for the stability of the financial system and the economy.

In tomorrow's lecture I will discuss the severe weakening in financial regulation, supervision, and enforcement resulting from this as well as the loss of operational capability from unprecedented workforce reductions at the financial regulatory agencies.

On Thursday, I will discuss the priorities we should consider in ultimately repairing this damage, as well as some of the other key challenges to financial system stability.

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<sup>49</sup> Board of Governors of the Federal Reserve System, "Federal Open Market Committee: Transparency and Accountability," <https://www.federalreserve.gov/monetarypolicy/fomc.htm>.

<sup>50</sup> Government Accountability Office, *About GAO*, <https://www.gao.gov/about>; Government Accountability Office, *Federal Reserve System: Opportunities Exist to Strengthen Policies and Processes for Managing Emergency Assistance*, GAO-11-696 (Washington, DC: GAO, 2011) (noting limits on GAO review of monetary policy).

<sup>51</sup> Administrative Procedure Act, 5 U.S.C. §§ 551–559, esp. § 553; Todd Garvey, *A Brief Overview of Rulemaking and Judicial Review*, CRS Report R41546 (Washington, DC: Congressional Research Service, March 27, 2017).

Let me end this lecture with a relevant quote from Chairman Volcker's memoir to set the stage for tomorrow:

"We have learned time and again that years of financial stability and economic growth tend to involve easing of regulations and supervisory discipline. We see that at work as I write in 2018, with pleas for reduced capital standards for banks and a narrowing of the number of mega-financial institutions subject to more intrusive surveillance. Can we learn to do better?"<sup>52</sup>

For the moment, as I will discuss tomorrow, I'm afraid the answer is no.

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<sup>52</sup> Volcker, *Keeping At It*, 219.