The Effectiveness of Federal Reserve Bank Governance
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Discussion
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Summary

- Study on the governance of regional Federal Reserve Banks
- These banks are “owned” by member banks
- Non-profit corporations supervised by board of directors

Summary (cont.)

- Board structure
  - 3 class A directors to represent member banks
  - 3 class B directors to represent the public
  - 3 class C directors appointed by Board of Governors
- Class A and B directors elected by member banks
- Directors serve at most two 3-year terms

Summary (cont.)

- Basic issue: Is this a good system of governance despite the apparent conflict of interest?

- Analysis of who the directors are: Officers of large banks more likely to class A directors

- Event study: Stock price reaction of Director banks is positive with a more positive reaction for Class A directors

Discussion

- Why is there a positive stock price effect?
- Is it a reputation effect?
- Is it a placebo effect? E.g. what is the effect of other newspaper stories about the bank or bank directors?

Discussion (cont.)

- In order to judge the effectiveness of governance of an institution need to understand what the institution does

- What exactly is the role of the regional Federal Reserve Banks?
    - Good to start with a discussion of this

- What are possible indexes of performance?

Discussion (cont.)

- An important role traditionally has been processing of checks
- Given this the current governance process makes sense: in line with Hansmann (1996) discussion of co-operatives and non-profits
- Main role is providing services to member banks so they should be governed by member banks

Discussion (cont.)

- Is it possible to measure the effectiveness of Federal Reserve Banks in this role?
- Is there data available about how effectively they have achieved this role?
- Can you benchmark against private processors of checks?

Discussion (cont.)

- US has a wonderful system of check processing

- BUT

- It's essentially a 19^{th} century technology with 20^{th} century embellishments like electronic scanning

Discussion (cont.)

- Standard issue in the literature (e.g. Humphrey and Berger 1990):

  Why has the US been so slow to adopt modern payment technologies compared to the Scandinavian and other countries?

  Is it related to the governance issue? Why didn't the regional Federal Reserve banks help coordinate a switch in payments technologies?

Discussion (cont.)

- Checks are on the decline
- What will be the role of the regional Federal Reserve Banks going forward?
    - Regional representation on FOMC?
    - Research?
    - Do we need 12 of them?
- Is the current governance structure suited for this new role?