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## Nobel Laureate Diamond Is Unqualified for Fed: Mark A. Calabria

By Mark A. Calabria - Nov 21, 2010  
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[Peter Diamond](#), the Nobel Prize-winning economist nominated for the Federal Reserve Board, should be rejected by the Senate and sent home to Massachusetts. There, where he is a professor at Massachusetts Institute of Technology, he can do the least harm to U.S. monetary policy.

The Senate Banking Committee voted 16-7 last week to recommend Diamond to the full chamber. The opposition came from Republicans led by the panel's ranking member, Senator [Richard Shelby](#) of Alabama. President [Barack Obama](#) nominated Diamond in September after an initial bid to place him on the Fed board was blocked in August in a procedural move.

The problem with this candidate is both legal and political. By law, Diamond isn't qualified to join the Fed's [board](#) with its current makeup, and his academic background isn't what the central bank needs right now.

According to Section 10-1 of the [Federal Reserve Act](#), the next member of the Board of Governors may not come from a Fed district that already has representation on the board. As both common sense and his Senate [paperwork](#) confirm, Diamond is from Massachusetts. So is Fed Governor [Dan Tarullo](#). Unless [Tarullo](#) is resigning, Diamond is ineligible.

To get around this quandary, the White House says Diamond is actually from Chicago. The basis of this claim is that he has lectured at [Northwestern University](#). To believe that giving a lecture at the school, located in Evanston, Illinois, makes one "from" Chicago displays contempt for the law that is unique even for this administration.

### Diversity Goal

Since 1960, Diamond has resided in Massachusetts, except for a few years at the [University of California at Berkeley](#). There is no plausible reading of the law which should allow Diamond's candidacy to proceed.

Objecting to Diamond's nomination on these grounds is no mere technicality. It is rooted in the very substance of the statute. The creators of the Federal Reserve System rejected a structure based solely in Washington and run by technocrats. We have 12 regional Fed banks for a good reason: so that voices throughout the country can be heard in the conduct of monetary policy.

With Diamond on the board, every single sitting Fed governor will be from a coastal state, and a state won by Obama. There is also only one governor, [Janet Yellen](#) of San Francisco, from west of the Mississippi River. President Obama and Senate Democrats aren't remaking the board to include representation from "flyover" states.

### Faculty Club

Congress didn't stop with regional considerations when seeking balance in the creation of monetary policy. The law also requires that the president's choice of board members "have due regard to a fair representation of the financial, agricultural, industrial, and commercial interests, and geographical divisions of the country."

Interestingly enough, the Federal Reserve Act makes no specific mention of adequate representation for academia. With Diamond's appointment, a majority of the governors will be former academics. At best only one governor, Virginia banker [Elizabeth Duke](#), has ever been in the position of having to make a payroll.

The current board lacks any representation at all for "agricultural, industrial, and commercial interests." We have gotten to the point where the Fed Board is entirely composed of bankers and left-leaning academics. This isn't a board that Carter Glass, who wrote the 1913 Federal Reserve Act as chairman of the House Committee on Banking and Currency, would even recognize.

### Not Science

There is an argument for having an academic, or at most two, sit on the Board. After all, there is a considerable amount of scholarly work on monetary theory. There also is considerable disagreement among monetary scholars. And in spite of all the self-congratulations that academics were giving one another prior to the financial crisis, it is now obvious that monetary economics is far from a reliable set of scientific guidelines.

What is sorely needed at the Fed is the perspective of individuals who have actually worked in the real world. As someone with a doctorate in economics, it pains me to say it, but the last thing the Fed needs is another Ph.D. in economics. The central bank has a staff of thousands of Ph.D.s.

It is hard to make the case that the shift toward packing the Fed board with economists, orchestrated by Walter Heller during his time as chairman of Kennedy's Council of Economic Advisors, has improved monetary policy. In fact, we largely had price stability in the days when the Fed board lacked academics.

If anything, this era of a "scientific" Fed has been characterized by rampant inflation. That shouldn't be surprising since it was academics who came up with the notion that you can debase your way to prosperity.

Obama should find a Fed nominee that has actually run a [business](#), resides in flyover country and understands the basic values of thrift and hard work.

It is time for both the president and the Fed to take seriously their responsibilities to represent all of our country, and not just a sliver of coastal states. Maybe then we can begin to redeem the central bank's credibility with the American public.

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