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Wants to strip regional bank presidents of FOMC vote

By Greg Robb, MarketWatch
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WASHINGTON (Menafn - MarketWatch) — Rep. Barney Frank, the top Democrat of the House Financial Services Committee, is taking aim at the hawks on the Federal Reserve.

Frank announced Tuesday he will introduce legislation to strip the 12 regional Fed bank presidents of their votes on the central bank's interest-rate setting Federal Open Market Committee.

At the moment, several of these regional Fed bank presidents are more hawkish than the chairman, Ben Bernanke, and the majority of the voting members of the FOMC. That means they generally want the Fed to concentrate more on preventing inflation than stimulating growth. At the moment, several are urging the Fed to hike rates sooner rather than later.

Under its current structure, 12 of the Fed's 19 members vote at interest rate setting meetings. The seven members of the Fed's board of governors in Washington, who are appointed by the president and confirmed by the Senate.

The regional Fed presidents are picked by their individual boards of directors, often regional bankers and local business leaders. While the president of the key Federal Reserve Bank of New York also always has a vote on the FOMC, the remaining eleven Fed bank presidents rotate as voting members.

In a discussion on CNBC of his bill, Frank said the current Fed structure is undemocratic. He noted that regional Fed bank presidents are not picked by elected officials, so they should not vote on key public-policy issues such as setting the level of interest rates.

Regional Fed bank presidents are picked by their boards of directors, made up of regional bankers and local business leaders.

"I think it is fine for them to sit in and make recommendations," but when it comes to voting they should be excluded, Frank said.

Their presence as voting members "it totally inconsistent with any kind of theory of democracy," Frank said.

"It undermines legitimacy when you have literally people who are in the financial industry picking people to vote on setting interest rates," Frank said.

Mark Calabria, director of financial regulation studies at the Cato Institute, a libertarian think-tank said Frank doesn't like that some regional bank presidents are raising questions about inflation.

"It is a shot across the bow — shut up, I don't like what you are saying," Calabria said.

Frank's legislation is expected to be resisted fiercely by the regional bank presidents and their allies on Capitol Hill.

The regional Fed presidents have proven to be savvy politically last year during deliberations over how to respond to the financial crisis. They managed to defeat a proposal to have the president of the New York Fed appointed by the president and confirmed by the Senate.

"Do I think this is going to pass? Absolutely not," Calabria said.

The regional Fed presidents tend to develop strong relationships with their congressional representatives, he said.

"They are dug in with their community. So you are going to have that base of support," he said.

After Frank spoke, Thomas Hoenig, the president of the Kansas City Fed Bank, said stripping the votes from the regional bank presidents would be a "tragic" mistake.

He argued that the regional bank presidents bring a fresh Main Street perspective to Fed deliberations.

Miller Tabak & Co. chief economic strategist Dan Greenhaus said the measure would leave the core group of Fed governors as the deciding group with regards to monetary policy.

Removing the rotating bank presidents from the FOMC is one step closer to having monetary policy dictated by Congress, he said.