Bloomberg

Out West, Debate Asks Whether Fed Is Serving Bankers or Busboys

Jeanna Smialek

August 25, 2016

As Federal Reserve officials and top economists meet in Jackson Hole this week, the Fed Up coalition will be criticizing the central bank's structure from the sidelines.

The pro-worker group, an initiative of the Center for Popular Democracy, expects to have 120 workers and activists at the annual economic symposium in Wyoming. On Thursday evening, representatives will meet with Kansas City Fed President Esther George and her fellow bank presidents William Dudley, Neel Kashkari, Loretta Mester, Robert Kaplan, Eric Rosengren and John Williams, along with Fed Governor Lael Brainard, said Fed Up organizer Jordan Haedtler.

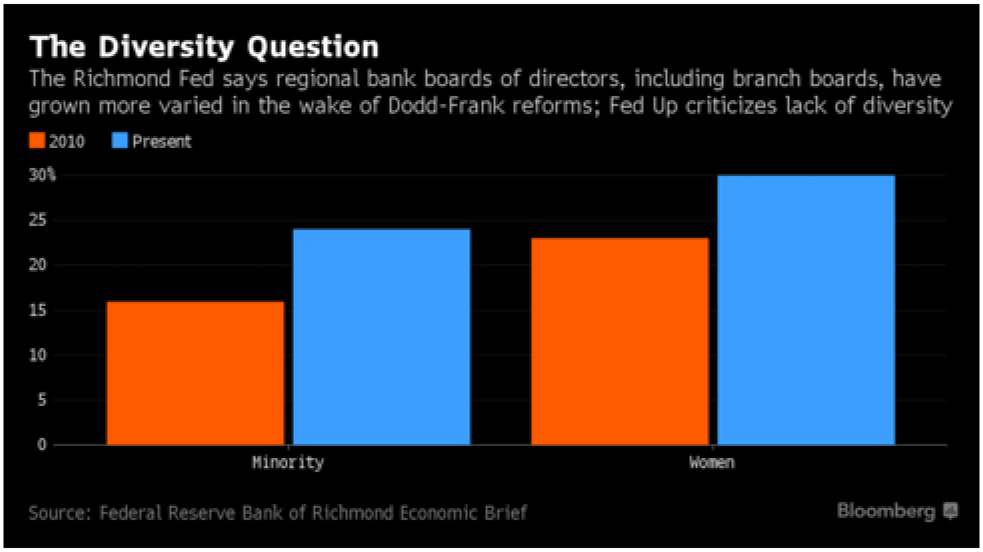
Fed Up says the central bank lacks diversity and takes issue with the fact that private banks select two-thirds of the members of the 12 regional banks' boards of directors. The Richmond Fed responded to those complaints this week -- economic writer Helen Fessenden and economist Gary Richardson on Tuesday published an economic brief addressing Fed Up's concerns, and they say monetary policy isn't well-suited to the end goal the activists have in mind.

"A common thread among Fed critics is that a reformed Fed, with a more diverse composition and a broader balance of interests among its boards, would act more boldly to help those who have struggled the most economically," they wrote. "Many economists argue, however, that monetary policy alone is not a sufficient or particularly well-designed tool to address inequality."

In a paper that Fed Up's Haedtler, Dartmouth College economist Andrew Levin, and the Economic Policy Institute's Valerie Wilson published Monday, the writers acknowledge that monetary policy can't directly tackle inequality but argue that central bank actions can significantly impact the pace of an economic recovery -- and, as a result, employment and wages.

A tighter job market makes it harder for employers to discriminate, they reason, and "it is appropriate for the Fed to consider those effects in setting the course of monetary policy, but the transcripts of FOMC meetings provide little evidence that Fed officials have actually done so."

The Richmond Fed authors say minority representation has gotten better in recent years, and push back on the idea that regional boards of directors are banker-dominated, pointing out that bankers make up a smaller share today than they did in the past. The percentage of regional directors with formal banking affiliations has dropped from 52 percent to 36 percent, they write.



They note that after Dodd-Frank Act changes, Class A directors -- who come from banks -- can't participate in most aspects of the appointment process of bank presidents and first vice presidents.

It's becoming increasingly important for the Fed to address Fed Up's concerns, because the call for more diversity is gaining political purchase. Democratic presidential contender Hillary Clinton has said that the Fed "needs to be more representative of America as a whole."

Sentiment favoring change extends across the aisle: As the Richmond researchers note, Mark Calabria of the libertarian-leaning Cato Institute recently wrote that the Fed has a "diversity problem" of too many East Coast economists at senior levels.

"There is a bipartisan consensus that the Fed could use some improvement," Calabria said, though there's little agreement about what needs to be done. "The consensus is weak. It's a broad-based consensus, but when you get down to details, it begins to fall apart."