Ohio merits a seat on the Fed: Mark Calabria

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1946. That is the last time someone from the Cleveland Fed district was a member of the Federal Reserve Board. Section 10 of the Federal Reserve Act requires that, in regard to members of the board, "not more than one of whom shall be selected from any one Federal Reserve district," the presi dent's selections "shall have due regard to a fair representation of . . . geographical divisions of the country."

In plain English, this means you cannot have more than one Fed governor from the same Fed district.

Jeremy Stein and Jerome Powell were recently sworn in as members of the Board of Gov ernors of the Federal Reserve System. According to his paperwork, submitted to the Senate, Professor Stein is from Massachusetts. Current Fed governor Dan Turullo is also from Mas sachusetts. Mr. Powell is from Maryland, as is current governor Sarah Bloom Raskin. Their advancements meet neither the letter nor the spirit of the law.

If we ever hope to break the Federal Reserve free of the outsized influence of Wall Street, nominations have to come from outside the financial strongholds of the Northeast. A good place to start looking is America's industrial heartland, particularly Ohio, the seat of the Cleveland Fed.

Congress imposed a "geographic diversity" requirement upon the Fed for good reason. Regions of the country do not move together. Nevada's 11.7 percent unemployment rate, for example, is significantly above South Dakota's 4.3 percent. If the Fed lacks a wide range of voices, then its policies are not likely to reflect the economic differences across our country. An interest rate policy that might be appropriate for New York City, and its financial sector, might not be appropriate for industrial Ohio. Just the fact that only one current Fed governor, Janet Yellen from San Francisco, is from west of the Mississippi raises questions as to the legitimacy of Fed decision-making.

Ohio also has a long honored history of dissent from the groupthink that can sometimes dominate the Fed. In the 1980s and 1990s, almost a fifth of monetary policy votes cast by individuals from the Cleveland Fed district were dissents from the majority.

In contrast, representatives from the New York district dissented only 3.5 percent of the time. But then New York had little need for dissent, as its interests already dominate at the Fed. The fact that the New York Fed is the only regional Fed with a permanent vote, while the others rotate, makes it all the more important to have additions to the Fed board come from outside the Northeast.

The historical makeup of the Fed membership has not been simply a result of population density. One would expect New York to have significant representation, given its size. But the New York Fed's district is about 7 percent of the U.S. population, while about 17 percent of votes on Fed monetary policy have come from individuals originating in the New York District. At the other extreme, the Atlanta Fed has a district covering 14 percent of the U.S. population, but has cast only 3 percent of votes on monetary policy.

Nor is the argument that it is difficult to find qualified nominees in the Midwest particularly convincing. True, Jeremy Stein is a professor at Harvard. But there are a number of great schools outside the Northeast.

For instance, Ohio State University is ranked the fourth best finance department in the country. Surely there must be someone on the faculty who is qualified to serve on the Fed's board.
Ohio, and the Midwest in general, is also home to a number of Fortune 500 companies, including Macy's, Sherwin-Williams, Goodyear and Kroger. Surely some of these companies have executives who could contribute to the making of monetary policy.

One need only look at the Cleveland Fed's Board of Directors to find such individuals.
If it seems that the Fed occasionally puts the interests of Wall Street before that of the broader public, it should come as no surprise.

Presidents of both parties have had a long history of filling the Fed either with individuals who worked on Wall Street or are from states whose economies are dominated by high finance.
Who sits on the Fed board matters. If we want to change the direction of the Fed, we must change those who steer it.

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