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No place like home? Don't tell that to Fed board nominees

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When the Trump administration officially announced its most recent nominees to fill vacancies on the Federal Reserve Board, they were listed as “Judy Shelton, of Virginia,” and “Christopher Waller, of Missouri.” But when the nominations were forwarded to the Senate a dozen days later, they were listed as “Judy Shelton, of California,” and “Christopher Waller, of Minnesota.” What gives?

It's a shady tactic commonly practiced as part of the Fed's nominating and confirmation process. It involves skirting a once rigorously enforced Federal Reserve requirement about geographical diversity on the Fed Board of Governors. Now that requirement has become something of a sham — and mainly comes into play in the service of partisan politics.

The requirement is a little-known clause in the Federal Reserve Act saying that “not more than one” Fed governor “shall be selected from any one Federal Reserve district.” Lael Brainard and Michelle Bowman already represent Fed districts that include all of Virginia and Missouri. So neither a “Judy Shelton, of Virginia,” nor a “Christopher Waller, of Missouri” would qualify to join the board.

However, the board's California (San Francisco Fed) and Minnesota (Minneapolis Fed) slots are empty. Hence — presto! — the candidates suddenly hail from new home states.

Is the Trump administration flouting yet another law? Yes. And no.

First of all, the new designations aren't altogether bogus. Besides having a residence in California, Shelton was born there; and being born somewhere has long counted, in Fed board appointments, as being “from” that place.

Waller's link to Minnesota is considerably weaker: He earned his undergraduate degree from the state's Bemidji State University. In 2016, economist Peter Diamond's similarly tenuous ties to Illinois — he lectured there on occasion — gave Republicans an excuse for refusing to confirm his appointment to represent the Chicago Fed district.

But Diamond's case was a noteworthy exception. For more than two decades, the rule has essentially been ... no rule at all. Ten board members, including two Fed chairs and a vice chair,

have been appointed without even the pretense of meeting the Federal Reserve Act's geographic diversity requirement, while several others have had only slim ties to the districts they were appointed to represent.

One recent case is Randy Quarles, the Fed's vice chair for supervision. He was born in San Francisco and lived in Utah (which is also in the San Francisco Fed district), but when President Trump nominated him in 2017, he became "Randy Quarles, of Colorado," where he lived as a boy and often spent his Christmas holidays. The designation avoided a clash with Janet Yellen, the Fed's chair at the time, who already represented the San Francisco district.

Vice Chair Richard Clarida's case is even more recent, and more unusual. When nominated, Clarida, who represents the Boston Federal Reserve district, was designated "of Connecticut," where he lived. But Clarida resided in Fairfield County, which happens to belong to the New York Fed district — and was already represented. So far as the record reveals, no senator bothered to ask Clarida which part of Connecticut he was "of."

When the geographic diversity requirement has served any purpose lately, it's been as a blunt weapon of partisan politics, to be hurled at otherwise well-qualified Fed nominees when nothing else avails. And, apparently, it's only useful when the party that controls the Senate doesn't also control the White House.

The situation presents Congress with a clear choice: Either scrap the Fed's moribund geographic diversity requirement, or enforce it. Congress could pursue diversity by simply amending the law to specify that nominees must truly be "of" the places they list as their residences on tax returns for the year immediately preceding their nominations.

In pondering that possibility, Congress should recall the diversity requirement's original purpose: keeping the Fed from becoming a plaything of East Coast bankers. Between 1914 and 1996, only 30% of Fed board members were born on the East Coast. But since 1996, thanks to the requirement's slack enforcement, that figure has risen to 80%, according to an article in the *Yale Law & Policy Review* [and analysis by the Cato Institute](#).

In an age that prizes diversity and fears Wall Street's influence, the Fed's geographically skewed governance makes for bad optics, if not for faulty Fed governance. So rather than scrap the requirement, Congress would be wise to give it some real teeth.

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