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New Voters May Sway Fed Actions

By SEWELL CHAN

WASHINGTON — As the Federal Reserve debates whether to scale back, continue or expand its $600 billion effort to nurse the economic recovery, four men will have a newly prominent role in influencing the central bank's path.

One is an economist who fears that the Fed's easy-money policies could lead to manias like the housing bubble that burst in 2007. Another is a Texas Democrat who served in the Clinton White House, but is wary of the Fed's aggressive efforts to combat unemployment.

A third is a precocious economist who graduated from Princeton at 19. And the fourth is the only one who agreed wholeheartedly with the Fed's chairman, Ben S. Bernanke, that the economy was at risk of falling into a dangerous cycle of deflation last summer and that an additional monetary boost was needed.

The four men are presidents of regional Fed banks, and under an arcane system that dates to the Depression, they will become voting members in 2011 on the Federal Open Market Committee, which gathers eight times a year around a 27-foot mahogany table to influence the supply of credit in the economy.

While Mr. Bernanke remains the dominant voice on which route the Fed takes, the change in voting composition is likely to give the committee a somewhat more hawkish cast. This could amplify anxieties about unforeseen effects of Mr. Bernanke's policies and potentially contribute to the increasingly politicized atmosphere surrounding the Fed.

Since the Fed embarked last month on a second round of quantitative easing — a strategy of buying government securities to hold down mortgage and other long-term interest rates — it

has faced an outpouring of criticism from foreign central banks and conservative Republicans.

One of them, Representative Paul D. Ryan of Wisconsin, who is in line to become chairman of the House Budget Committee, said he thought that dissenters within the Fed would influence whether Mr. Bernanke "throttles back, or keeps going," with the bond-buying plan.

"We're playing with fire, flirting with disaster," Mr. Ryan said of the plan, which he believes could jeopardize the dollar's status as the world's reserve currency and touch off future inflation.

Most economists think the Fed is unlikely to drastically alter its policy direction, though some of the new members could nudge policy toward more restraint and less activism. Two of the four new voters are viewed as hawkish on inflation, meaning that they tend to be more worried about unleashing future inflation than they are about reducing unemployment in the short run.

The committee will be "a little more hawkish, on net, although I don't think it's a sea change," said Jan Hatzius, the chief United States economist at Goldman Sachs.

Of the four new voting members, the one drawing the most attention is Charles I. Plosser, 62, president of the Federal Reserve Bank of Philadelphia since 2006.

Mr. Plosser, who formerly taught at the University of Rochester, argued in a speech at the libertarian Cato Institute last month that monetary policy "went off track" a few years ago, an acknowledgment of the criticism that the Fed kept interest rates too low from 2003 to 2005, contributing to the housing bubble.

"I'd like the recovery to be faster, but I'm not sure monetary policy can do much about that," he said in an interview.

Mr. Plosser said that he has thought all along that the economic slowdown over the summer was temporary and that he "wasn't a big fan" of Mr. Bernanke's asset-purchase plan. He wants the Fed to move back toward normal policy.

"If we wait too long, and the economy really begins to pick up and we are too late in reacting, we could end up behind the curve and we could end up with more instability," he said.

Most economists expect Mr. Plosser to dissent, possibly repeatedly, in 2011, inheriting a role played by Thomas M. Hoenig, president of the Kansas City Fed, who was the lone dissenter eight times this year but does not have a vote next year.

Richard W. Fisher, president of the Dallas Fed since 2005, is another potential dissenter. A former investment banker, he was the Democratic nominee for the Senate in 1994, but lost to Kay Bailey Hutchison, a Republican. He was a deputy United States trade representative during President Bill Clinton's second term.

Compared with most Democratic politicians, Mr. Fisher, 61, is wary of the Fed's latest moves. "The remedy for what ails the economy is, in my view, in the hands of the fiscal and regulatory authorities, not the Fed," he said in a speech last month.

His views are also in line with those of fiscal conservatives, like Mr. Ryan, who think the Fed is abetting huge government deficits by "monetizing the federal debt."

Narayana R. Kocherlakota, 47, the Princeton graduate, who became president of the Minneapolis Fed last year, will be voting for the first time. He has been more measured about quantitative easing. In a speech last month, he called it "a move in the right direction" but said the ultimate effects were "likely to be relatively modest."

The fourth new voting member, Charles L. Evans, 52, has led the Chicago Fed since 2007. Unlike the other three, he is associated with the camp of so-called doves within the Fed, who are worried about chronic, long-term joblessness and think the recovery is still quite fragile.

Mr. Evans has advocated price-level targeting, a strategy that would allow inflation to run slightly above the desired level in the future to make up for inflation's being too low today. But in an October speech, he conceded that the proposal would be "a hard pill to swallow" for an institution whose credibility rested on its successes at taming high inflation in the early 1980s.

Mr. Evans is likely to side with Mr. Bernanke on the bond purchases; if anything, he might even push to expand them beyond $600 billion if the recovery weakened again.

The Federal Open Market Committee comprises the Fed's seven-member board of governors in Washington, including Mr. Bernanke; the president of the New York Fed, who is a permanent member; and four members drawn from the heads of the 11 other banks, who share votes

through a rotation.

“It’s true that voting members get more attention in the press, but whether people are voting or nonvoting members, everyone has an equal voice at the table and an equal part in the discussions,” said Randall S. Kroszner, a former Fed governor and a professor at the Booth School of Business at the University of Chicago. “It’s a consensus-based organization.”

For now, Goldman Sachs, Morgan Stanley and other major forecasters expect the Fed will carry out its plan to buy $600 billion in securities — neither scaling back the program early, nor extending it past June. But Mr. Bernanke has left his options open, and the committee is likely to wait until the spring before deciding.

Lyle E. Gramley, a former Fed governor who advises the Potomac Research Group, an economic research firm, said he thought the new members would introduce “slightly more uncertainty,” but predicted that the ultimate effect would be limited.

“The chairman has a strong voice in the outcome of the meeting, and there is a tradition that not too many people are going to dissent at any one time,” he said.

What could cause the Fed to scale back, Mr. Gramley said, is an unexpected and sharp rise in inflation expectations. If the markets come to believe that inflation will eventually rise higher than the Fed’s unofficial long-range target of 2 percent, they could drive up interest rates — and inflation. So far, there have been few signs of that, but the situation could change quickly.