

**The Selection of Voting Members
To Serve on the Federal Open Market Committee**

**Congressman Barney Frank
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I have long been troubled by the anomaly of having officials—selected with absolutely no public scrutiny or confirmation—voting on some of the most important decisions the federal government makes. Therefore, I introduced H.R. 1512, which eliminates the role of the Federal Reserve’s regional presidents as voting members of the Federal Open Market Committee. The Federal Reserve (Fed) regional presidents, 5 of whom vote at all times on the Federal Open Market Committee, are neither elected nor appointed by officials who are themselves elected. Instead, they are part of a self-perpetuating group of private citizens who select each other and who are treated as equals in setting federal monetary policy with officials appointed by the President and confirmed by the Senate.

For some time this has troubled me from a theoretical democratic standpoint. But several years ago it became clear that their voting presence on the FOMC was not simply an imperfection in our model of government based on public accountability, but was almost certainly a factor, influencing in a systematic way the decisions of the Federal Reserve. In particular, it seems highly likely to me that their voting presence on the Committee has the effect of skewing policy to one side of the Fed’s dual mandate—specifically that they were a factor moving the Fed to pay more attention to combating inflation than to the equally important, and required by law, policy of promoting employment.

In 2009, I asked staff of the Financial Services Committee to prepare an analysis of FOMC voting patterns. It confirmed two points. First, the great majority of dissents, 90 percent—from FOMC policy before 2010—came from the regional presidents. Second, the overwhelming majority of those dissents were in the direction of higher interest rates. In fact, vote data confirmed that 97 percent of hawkish dissents came from the regional bank presidents and 80 percent of all dissenting votes in the FOMC over the past decade were from a hawkish stance.

When I raised my objection to the inclusion of the regional presidents as voting members, I was given two responses by defenders of the current system. Alan Greenspan argued that it was important to have first-rate people agree to be regional bank presidents and that giving them votes on the FOMC was an important inducement to getting them to accept that position. Secondly, others argued that it would be wrong to have only Federal Reserve governors based in Washington voting on these things and that there needed to be a diversity of views from other parts of the country.

The first of these does not seem to me to have much weight. Being the regional bank president is an important and prestigious job, and I simply do not believe that we could not find people willing and able to carry out its responsibilities if they were not rewarded

with a vote on a central matter of economic policy. As to the second argument, for diversity, it needs to be analyzed further.

It is true that having the regional presidents' vote provides geographic diversity but it provides far less diversity in every other way than presidential appointments. In particular, the notion—which I did hear in opposition to my legislation—that the Federal Reserve Bank presidents are representative of various segments of our economy is flatly wrong. The presidents are, of course, selected by the board members of the regional banks, a majority of whom are selected by member banks, making this a wholly self-perpetuating operation.

So the important question then is “Who are the directors of the regional banks?” Do they ensure a degree of diversity in the decision making of the FOMC? The answer is “No.” Not surprisingly, given all the factors involved, the members of the board of directors are overwhelmingly representative of business, and particularly financial industry representatives. That is, not only are the regional presidents appointed and reappointed by people, a majority of whom are elected by the member banks of each regional bank, they are not in any way representative of the American economy. They in fact, represent the very particular segment that elected them. Of the 5 regional presidents who are currently voting members of the FOMC, all of them were selected by boards where representatives of private and financial institutions account for the majority of board members.

Until recently, the tenor of Federal Reserve deliberations was one that promoted consensus. And while it is clear from the voting patterns that the regional bank presidents exercise some influence in the direction of focusing concern more on inflation than unemployment, it is very unlikely that was a significant factor until recently. But things have changed. In particular, the Federal Reserve has been affected by the disdain for consensus and the contentiousness that has affected our politics in general. It is also the case that the Federal Reserve has been, for a variety of reasons, thrust more centrally into policy making than it had been previously. First with the events of 2008 and thereafter in dealing with the financial crisis, and since then in being forced to bear the lion's share of federal economic policy making in the light of stalemate on the fiscal side.

What all this means is that the voting presence of the regional presidents on the FOMC has now become a significant constraint on national economic policy making. The 7-3 vote of the FOMC in August in favor of keeping interest rates low is stark evidence of how much of a constraint this is. Obviously it is not a matter of pulling a switch and achieving a guaranteed physical result. How people in the financial community react to the decisions has a major effect, and a 7-3 decision is clearly less effective in influencing other's decisions—which is the way in which the decisions are executed—than a 10-0 vote.

Those who are critical of the Federal Reserve for not doing more—and I have been one of them—should take this into account and make sure that their criticisms are not of Ben Bernanke, who in my view has been trying hard to deal with the situation responsibly, but rather of a structure over which he presides and where he confronts people appointed by

business interests who do not share the commitment to equal consideration of the full employment section of the Federal Reserve's dual mandate.

It is not at all surprising that those appointed by Presidents—Republican or Democratic—are more supportive of taking action to focus equally on both mandates, than are those who come from the collection of business interests who appoint the regional presidents. And the proof of that is that the record of greater dissents coming from the regional presidents than from governors is equally the case whether the governors were appointed by Democratic or Republican presidents.

Finally, one other factor of our current degraded political atmosphere exacerbates this. That is the refusal of the Republicans in the Senate to do their constitutional duty and treat the confirmation process as it is supposed to be treated—namely by looking at the merits of each individual nominee. The influence of the regional bank presidents is obviously great when there are seven governors and five presidents voting on the FOMC. In the current situation, we have an equal vote between the presidents and the governors and that greatly adds not simply to the influence that presidents have, but to their ability to effectively constrain or veto items such as further use of unconventional tools to promote growth.

I have finally taken into account the argument that some diversity from a geographic standpoint would be a good thing, as would diversity from an occupational or institutional point of view. Just as I think it is helpful that Members of Congress commute between Washington where we talk mostly to each other and our districts where we talk to everybody else, I believe following the British model of having voting members of the Committee setting interest rates from outside the capital is a good idea. Soon I will be submitting a new version of the bill in which the President will be required to appoint seven governors subject to Senate confirmation as today, but also to appoint four representatives from regions outside of Washington to come to Washington for FOMC meetings and vote, also subject to Senate confirmation, but not otherwise employed by the Federal Reserve system. This will ensure important policy makers are either elected or appointed by elected officials, and give geographic and occupational diversity to the views that shape the decisions that are made.