

A Central Bank for the Beltway

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Federal Reserve Bank of Dallas President Richard Fisher, approaching mandatory retirement, announced last week that he'll step down in March. Philadelphia Fed President Charles Plosser will retire the same month. Since the two have been stalwart advocates for sound money and economics, unions and their allies want to ensure that their successors aren't as sensible.

ILLUSTRATION: Getty Images

These forces have gathered under something called the Center for Popular Democracy, which includes the AFL-CIO, the teachers unions, the Service Employees International Union and the Working Families Organization. The center is demanding that "members of the public" be included on search committees for the successors to Messrs. Fisher and Plosser.



The complaint is that the process is dominated by the bankers the Fed regulates. Currently, the board of each regional Fed bank selects a new president, typically after reviewing candidates presented by an executive search firm. Once the board makes its choice, it must be approved by the Fed Board of Governors in Washington, whose members are appointed by the U.S. President.

On the regional Fed boards, power is further diffused. Three directors are appointed by the Fed Board of Governors, while six are elected by local banks. But bankers can hold only three of the nine seats and the chairman must be chosen from the non-bankers. And none of the bankers is allowed to vote or even participate in the selection of a regional Fed president.

The Federal Reserve system, which celebrated its 100th birthday last year, is a creation of Congress intended to balance political authority in Washington with people holding business, financial and civic expertise about their local economies. This structure was designed as a bulwark against political pressure because the regional banks have independent bases of support outside of Washington. The Dallas board, for example, includes bankers and businesspeople, a university president and the head of a philanthropic foundation.

The Fed should be held politically accountable in a democracy, but the progressive play here is to make the Fed more dependent on politicians whose default is always easier money. The regional Fed presidents are valuable precisely because they are independent of the Chairman and Board of Governors who have too often become de facto arms of the Treasury or White House.

As for their main substantive gripe, the various progressive outfits wrote in an August letter to current Fed Chair Janet Yellen and other officials “to remind you that the American economy is not working.” That’s something on which everyone can agree, nearly six years into the Obama Presidency.

But the letter’s policy advice is that interest rates should be kept low to boost wages. Since we are also nearly six years into the era of near-zero interest rates along with other Fed efforts to stimulate private economic activity, you’d think even progressives might conclude that the Fed cannot conjure economic opportunity and growth.

American voters this month sent their own reminder that the economy isn’t working for everyone. And unlike that August letter, the voters’ message was correctly addressed to Washington’s political leadership. The regional bank boards should select the best candidates who will provide independent policy judgment.

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