BerkeleyLaw
UNIVERSITY OF CALIFORNIA
Berkeley Center for Law, Business and the Economy

University of California, Berkeley
School of Law
2850 Telegraph Ave, Suite 500
Berkeley, CA 94705-7220

Ph: 510.642.0532 – Fax: 510.643.7095
E-mail: BCLBE@law.berkeley.edu
http://www.law.berkeley.edu/bclbe.htm

Fed Governors Have Grown More Exposed To Politics

By Diego Sendagorta Laso, LL.M. Candidate 2017 | November 1, 2016

On October 5, 2016, President and CEO of the Federal Reserve Bank of Richmond, Jeffrey M. Lacker delivered a speech in which he discussed the U.S. central bank's governance. He warned that members of the U.S. Federal Reserve's Board of Governors in Washington can be subject to political influence because they are "less insulated from the political process."

U.S. Federal Reserve System's Board of Governors in Washington D.C. is composed of seven members nominated by the President of the United States with the advice and consent of the Senate. A full term is fourteen years and begins every two years, but in recent decades, Fed governors have often served less than half their 14-year terms.

Lacker said that the Board is at times stacked with people appointed by one political party: "By the end of a president's term in the White House, it has typically been the case that the majority or every member of the Board of Governors was appointed by a president of the same party." As a result, he said, "The views of Governors may not be as diverse as intended."

While the potential for political influence exists, recent monetary policy decisions made by the Federal Open Market Committee "have surely not taken into account any political considerations," said Lacker.

Republican presidential candidate, Donald Trump, accused Dr. Yellen, the Chair of the Board of Governors, for keeping interest rates low. He said: "She's obviously political and doing what Obama wants her to do, and I know that's not supposed to be the way it is." Trump also commented, "Any increase at all will be a very, very small increase because they want to keep the market up so Obama goes out and let the new guy ... raise interest rates ... and watch what happens in the stock market."

Lacker was not a voting member of the Fed's policy committee this year, but he said that he would have voted for a rate increase in September. He participates in policy discussions, advocating for more aggressive interest rate increases. He did not say, however, that the current batch of governors has been influenced by politics or soft on inflation. Rather, he said it would be "preposterous" to think any recent policy decisions took politics into account.