
MONETARY POLICY ANALYTICS

Policy Focus

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Updates on FOMC Composition: Goodfriend, Indiana's Jones, and Fed Chair Speculation

Recent reports indicate the Trump Administration is expected to nominate Randal Quarles, Robert Jones, and Marvin Goodfriend to the Federal Reserve Board. (We have previously written extensively on Quarles: [\[link\]](#).) This commentary continues our discussion on the evolving profile of the FOMC [\[link\]](#).

There are currently three vacancies on the Federal Reserve Board. Reports indicate Quarles, Jones, and Goodfriend are possible nominees.

- **Vice Chair for Supervision:** According to Dodd-Frank, one governor must be Vice Chair for Supervision; we have previously written about Randal Quarles, who's been suggested as the likely nominee for this position [\[link\]](#). We expect that Quarles would conform to the mold of typical Republican appointees to the Fed: specifically, he would be to the moderately hawkish side, and be more focused on price stability and less on activist use of monetary policy with respect to promoting full employment.
- **Community-Banker Governor:** Another nominee must be someone with community banking experience. Reports indicate that Indiana community banker Robert Jones is under consideration. Jones has prior experience with the Federal Reserve System through his previous participation on the Federal Advisory Council (regional bankers advising the Fed) and his service on the Board of Directors for the St. Louis Fed (2008-2013, a period that encompassed the selection of James Bullard as Bank President). Although the role of a community-banker as a Board Governor is not expected to be central in formulating monetary policy strategies, that individual will, nevertheless have a voice on policy and a vote at every meeting. The Chair nevertheless counts on his or her support in deliberations and certainly when voting. And Jones's prior experience with the Fed suggests that he may have a shorter learning curve than other community bankers' that have served on the Board. While not necessarily instructive of the upcoming episode, Governor Duke was a reliable, if quiet, supporter of Chairman Bernanke's policies.
- **Governor:** The third current opening would be for a non-supervision, non-community-banker governor. This is the position for which Marvin Goodfriend is reportedly being considered.

Of the three reported potential nominees, it is Goodfriend who would likely be most consequential for future monetary policy conduct.

- As a professional economist, Goodfriend, unlike Quarles or Jones, would be more focused on monetary policy than the Fed's supervisory responsibilities. Goodfriend was a CEA economist in the Reagan Administration and was research director at the Richmond Fed, which has traditionally leaned hawkish.
- Goodfriend's own statements suggests he shares these hawkish views. Recently, he argued for the Fed to base its policies more closely on monetary policy rules. He also opposed the Fed's involvement in the MBS market because of his belief that the Fed should not interfere in credit allocation. However, he has also shown openness to other unconventional policies, such as negative rates, as circumstances require.

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- All else equal, for the current period of policy normalization, Goodfriend's views suggest that his appointment to the Board, on the margin, would result in a faster pace of rate hikes and a faster pace of MBS runoff. Of course, Goodfriend's impact on the FOMC will not immediately rival that of the Chair, the Vice Chair, and the President of the New York Fed. But over time, he could become a more influential voice of the more hawkish camp.
- Indeed, if Trump nominates Goodfriend, it would go against suspicions that the Administration would be inclined to choose more-dovish governors to support economic growth via lower rates and a weaker dollar. It might be too early to speculate but, on the margin, this would suggest that the Administration might nominate a more traditionally Republican Fed Chair than previously expected.

As for the position of Fed Chair, there has been little additional clarity on potential nominees. The President may still opt to re-nominate Yellen as Chair. But others on our running list include, but are certainly not limited to, the following (in alphabetical order):

- **Clarida:** Rich Clarida is a well-respected Republican economist. He is a professor at Columbia University, but also has deep private-sector experience. If it happens, you probably heard it first here.
- **Cohn:** Media reports have suggested that Gary Cohn might want to be Fed Chair. On separate occasions, he has responded to questions by simply stating his satisfaction with his current role—which we see as suggesting that he is open to the possibility. As a Politico [commentary](#) cautioned: “Of course people won't always cop to wanting jobs they actually want for fear of making getting the job less likely.” A possible hurdle is whether the Senate would confirm a Democrat to this position.
- **Powell:** Already a Fed Governor, Jay Powell is very disciplined and well-versed in financial markets. He is a Republican. Recently, when he was asked whether he would be interested in either the position of Chair or Vice Chair for Supervision, he stated: “Right now, I already have several jobs at the Fed and I'm extremely busy these days doing them. So, I'm not going to have any comment for you on that today” — which we interpret as his being open to the possibility.
- **Quarles:** We wrote about Randal Quarles as being the likely nominee for Vice Chair for Supervision. But we wouldn't discount his candidacy for Chair either, since he also fits the mold.
- **Warsh:** We previously wrote about Kevin Warsh's suitability for the Fed Chair position, given his background in financial services, his experience as a Fed governor, and his association with the Hoover Institution at Stanford University. Helping Warsh's chances is the association between Trump and Warsh's extended family: Warsh's father-in-law has been friends with the President himself since their school years and reportedly have frequent, close contact.

The Administration may opt to leave one Federal Reserve Board vacancy unfilled to maintain flexibility in nominating the Chair and Vice Chair.

- The Administration might view it as prudent to leave the seventh and last opening unfilled. Suppose the Administration fills all three current vacancies but Fischer and Yellen opt to stay on the Board as governors even after their terms as Chair and Vice Chair end. Then the Administration would be forced to select nominees for the position of Chair from the seven existing governors. Leaving the seventh slot unfilled would afford them the opportunity to nominate a Chair of their choosing, and might afford them some currency in political negotiations if need be.
- To be sure, we see it as highly unlikely that both Yellen and Fischer would opt to remain as governors and that all other vacancies would be filled by then. But the Administration may see this as a small price to pay to guard against this possibility.
- Of course, we also wouldn't be too surprised if Brainard departed in the next few years; she is a Democrat who would likely have been under consideration for Treasury Secretary in a Hillary Clinton presidency. So, she may want to move on in hopes of serving in the next Democratic administration. And there is the

possibility that Jay Powell could resign as well, especially if he were not to be chosen to be Chair or Vice Chair; he has already been a governor now for five years.

As for Federal Reserve Bank presidents, three districts are undergoing leadership changes.

- **Atlanta:** Raphael Bostic recently became president and will attend the June FOMC meeting, although not as a voting member. (Atlanta won't have a vote until 2018.) Given Bostic's experience as a Fed Board economist (for six years) and as assistant secretary for policy development and research at the U.S. Department of Housing and Urban Development, we expect him to hold moderate views on monetary policy. In a press release, he argued that he has "a degree of pragmatism that will also temper approaches that are too pie-in-the-sky or too academic, and will allow us to set reasonable expectations."
- **Richmond:** Following President Lacker's departure, the Richmond Fed's search for its next President is still under way. Historically, this district has leaned hawkish. The next time Richmond will have a voting FOMC member is in 2018.
- **New York:** President Dudley faces mandatory retirement in early 2019. The New York Fed president is the most powerful of all regional Fed presidents because much of the implementation of Fed policy (funds rate and balance sheet policies) are executed by the New York Fed. Moreover, the New York Fed president always has a vote and traditionally serves as Vice Chair of the FOMC. We expect the search to begin in earnest as soon as early next year.

Here are links to recent commentaries:

[Powell Updates Guidance on Balance Sheet Plans](#)

[May Jobs Report: Some Disappointments, but Unemployment Rate Continues to Fall](#)

[Sequencing Two Additional Hikes and the Phasing Out of Reinvestment in 2017](#)

[FOMC Minutes: An FOMC Undeterred](#)

[Inflation Surprises and the NAIRU](#)

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