MONETARY POLICY ANALYTICS

Musings

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Quarles's Confirmation Hearing: Mainstream Republican Views

Randal Quarles, the Trump Administration's nominee for Fed Governor and Vice Chair of Supervision, testified yesterday at his confirmation hearing before the Senate Banking Committee.

- When Quarles's name was first floated, we anticipated that his views on monetary policy leaned toward today's Republican orthodoxy [click here for our commentary].
- Most notably, in the past he has advocated that the FOMC follow a simple policy rule, and he has criticized the FOMC's conduct of monetary policy as "no way to run a railroad." We expected that, once on the Fed, he would temper his critical views about the conduct of monetary policy and want to play an active part in making monetary policy.
- We found his testimony yesterday consistent with our earlier views. His comments also confirmed our expectation that his views on regulation are consistent with where we believe Fed policy would otherwise be headed.

The only part of his testimony directly related to monetary policy was when he appeared to accept the opportunity to soften his earlier comments about policy rules, though without backing away entirely from them.

- Senator Menendez, D-N.J., noted that Quarles supported a "rules-based approach to monetary policy," based on an earlier conversation between them.
- Quarles was asked whether strict adherence to a Taylor Rule would "undermine the Fed's ability to achieve its full employment mandate." He characterized the Taylor Rule as "merely one example of a rule" and emphasized that he was not "advocating the adoption of a Taylor rule to guide Fed policy." We take that to mean that, once he becomes Governor, he will not want to give up control over rate decisions to a rule!
- We see his updated view as fully in line with that of Chair Yellen, who noted recently that the FOMC "routinely consults" policy rules and that "policy rules do embody some principles of sound monetary policy that should inform our policy decisions." However, she warned that "such prescriptions cannot be applied in a mechanical way."
- Quarles was also asked about how he saw the full employment side of the mandate, and in response he gave a politically correct answer: He simply referred to it as "an important element" of the dual mandate that he would take "very seriously."

The rest of Quarles's opening statement and testimony mostly focused on his prospective role in financial regulation and supervision, rather than monetary policy.

- Not surprisingly, Quarles listed the financial stability as a key objective, along with the dual mandate: "[The Fed] occupies a central position in our country's policy infrastructure for promoting a strong economy, and the stability of the financial system, and supporting robust job growth in the context of price stability. I can assure the committee that, were I to be confirmed as a governor of the Federal Reserve, I would be strongly committed to all these objectives."
- This is consistent with the elevation of financial stability as part of the Federal Reserve's role since the financial crisis (for example, as codified in Dodd-Frank, which included the creation of the Vice Chair for

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Supervision role). But that has led to increased focus on macroprudential policy, rather than to giving more weight to financial stability in monetary policy decisions.
- His opening statement also appeared to caution against depending too much on analytical models, although he most likely made this warning with regulatory policy in mind rather than monetary policy: "[My experience] reinforced my commitment to what I think is the single most important characteristic of a good policymaker; that he be humble. Humble about the constraints on our understanding of complex systems. Humble about the fallibility of our judgments. And humble about how our assumptions and views influence even what we believe to be our most data driven and analytical conclusions."
- When pressed on what regulators should have done differently to forestall the financial crisis, he pointed to the need for more-decisive action: "we could have moved more quickly. We could have been more aggressive in pushing some of these regulatory changes that we wanted to push, but believed would be politically difficult." That does not sound like a guy who wants to roll back Dodd-Frank, which, of course, he doesn't want to do. But there are sensible reforms that the Fed supports, and Quarles will lead in this direction.

Bottom Line:
Quarles's appointment to the Fed will likely have no implications for the conduct of monetary policy. We don't see his earlier advocacy of policy rules as making the monetary policy likely to be more hawkish than otherwise. The key question is who the Chair will be after Yellen's term is completed. We will update you with our views on that topic shortly.

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