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WASHINGTON POLICY STRATEGY

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Brian Gardner
Chief Washington Policy Strategist
bgardner@stifel.com



Federal Reserve (Fed) Board Vice Chair Lael Brainard is reportedly in the running for a key White House economic policy job. If she moves from the Fed to the White House, it could have some short-term implications for monetary and bank regulatory policy.

On Wednesday, the Washington Post reported that Federal Reserve Board Vice Chair Dr. Lael Brainard has emerged as a top contender to replace Brian Deese as National Economic Council (NEC) Director when he leaves the administration. If President Joe Biden picks Vice Chair Brainard, it would have at least short-term ramifications for the Fed, but her appointment probably does not represent a change in direction in the administration's economic agenda.

Dr. Brainard has emerged as a voice of caution against the Fed being too aggressive in fighting inflation. If she moves to the NEC, the Federal Open Market Committee would lose a dovish voice until the Senate confirms a replacement, which could take several months.

Dr. Brainard's possible move to the NEC could also have short-term implications for the Fed's bank regulatory agenda. Recently, Federal Reserve Vice Chairman for Supervision Michael Barr said that the Fed is undertaking a comprehensive review of bank capital requirements. Barr and other banking regulators have also signaled an interest in revising bank merger guidelines. Dr. Brainard is likely to be an ally of Vice Chairman Barr on the Fed's Board, and if she leaves, the Fed Board would be compromised of three Governors appointed by President Biden (Barr, Governor Lisa Cook, and Governor Phillip Jefferson) and three Governors appointed by Republican presidents (Chairman Jerome Powell, Governor Michelle Bowman, and Governor Christopher Waller). A 3-3 split could constrain Vice Chairman Barr's agenda at least temporarily. The impact of Dr. Brainard's potential departure would be felt more imminently on the potential modification of bank merger rules, since the review of bank capital rules is likely to take longer than revising bank merger guidelines.

To reiterate, any impact on bank regulatory matters would likely be temporary, as the Board would return to full membership of seven members (four Democratic appointees and three Republican appointees) once the Senate confirms a successor, which could take approximately six months.

It is unclear what Dr. Brainard's motivation might be to move from a prestigious Fed job. There has been speculation that she would like to serve as Treasury Secretary. A move directly from the Fed to Treasury could, however, raise some questions about the perception of Fed independence from Treasury. An interim move to the NEC might mitigate potential criticism that moving directly from the Fed to Treasury undercuts Fed independence.

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