August 30, 2021

The Honorable Joseph R. Biden
President
The White House
1600 Pennsylvania Avenue, N.W.
Washington, D.C., 20500

Dear President Biden:

As your administration considers its nominees for seats on the Federal Reserve Board of Governors which will open throughout your Presidential term — including the seats for the Chair, Vice Chair, and Vice Chair for Supervision — we, the undersigned organizations and academics, counsel you to consider the full range of powers available to this crucial institution.

You were elected on an agenda to address multiple, interlinked crises, including economic injustice and prosperity; systemic racism; and the existential crisis of climate change. Under its existing mandate, the Federal Reserve can play crucial roles on each of these issues. Moreover, several indispensable steps to progress on these issues fall uniquely under the Fed's powers — in other words, if the Fed fails to act, it will severely hamper or bring down the rest of your agenda, which would most severely impact the most vulnerable members of society.

We encourage you to remember that the Fed is a hierarchical institution, in which the Vice Chair and Vice Chair for Supervision wield considerable agenda-setting power, but are ultimately deferential to the Chair's initiatives. Therefore, for your policies to be successfully implemented, these three leaders must all be aligned behind the same policy vision. We encourage you to consider the following factors when setting the policy vision which will guide your nominations.

Protecting Against Recessions

The COVID-19 economic downturn is a major outlier among downturns in the last 40 years, as it was caused by a sudden viral outbreak rather than a failure of market actors themselves. The other crises of living memory were mostly caused by market failures in sectors experiencing a bubble of massive speculative investment. These bubbles caused the market failures' effects to spread across the financial system, in turn impacting the real economy.

The federal government's key tool to prevent these kinds of economic failures is robust financial regulation. The Fed's undue post-stagflation bias toward higher interest rates coincided with an era of massive deregulation, undoing much of the New Deal system. The result has been more recessions and economic crises in the last 40 years than over the duration of the New Deal regulatory regime.

Reversing this requires action from the Federal Reserve. It wields the most important powers to curb systemic risk and prevent concentrations of risk in key market actors. For example, only the Fed has regulatory jurisdiction over bank holding companies, whose non-banking subsidiaries are often the greatest source of destabilizing risk. The Fed's merger-approval powers also allow it to prevent concentration within the financial sector itself, guarding the full system against risk buildups in any one actor. As Chairwoman Maxine Waters of the House Financial Services Committee pointed out in a July letter, President Biden's executive order on competition alluded to the fact that a bank merger hasn't been blocked in 15 years, which suggests "the process has become a rubber stamp." When applied vigorously, the Fed's regulatory powers can actually help prevent recessions, just as its monetary powers ease their severity.

Systemic racism

It is crucial that you nominate Fed Governors with a deep commitment to ending systemic racial inequalities in the American economy. As Congresswoman Ayanna Pressley and African American Studies scholar David Stein wrote last year, there is "very little evidence" that the Fed in recent years has heeded its obligation under the Humphrey-Hawkins Act to reduce disparities in unemployment between marginalized groups and the broader population.[1]

We urge you to nominate governors who will consider not only traditional economic metrics, such as the unemployment and inflation rates determined by the Bureau of Labor Statistics, but who will also directly weigh factors like the Black unemployment and underemployment rates and the racial wealth gap when setting new policies or assessing the effectiveness of old ones.

Research by Jared Bernstein and Janelle Jones shows that Black and Latinx populations across all education levels experience far stronger responses to even single-point rises in overall unemployment than whites.[2] Black unemployment has trailed overall unemployment for generations.

So-called "race blind" policymaking inevitably recreates and reinforces racial hierarchies which it chooses not to address. As former Xerox CEO Ursula Burns argued at a Fed-hosted event on racial inequality, the Fed is avoiding its responsibility to people of color by behaving as if its policies were color blind.[3]

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[1] Ayanna Pressley and David Stein, Op-Ed: The Fed Has A 'Responsibility' To Reduce High Unemployment In The Black Community, CNBC, July 21, 2020 https://www.cnbc.com/2020/07/21/op-ed-fed-policies-have-contributed-to-black-unemployment.html

[2] Jared Bernstein and Janelle Jones, The Impact Of The Covid19 Recession On The Jobs And Incomes Of People Of Color, Center on Budget and Policy Priorities, June 2, 2020 https://www.cbpp.org/research/full-employment/the-impact-of-the-covid19-recession-on-the-jobs-and-incomes-of-persons-of

[3] The Fed Wakes Up to Race, Bloomberg, January 15, 2021 https://www.bloomberg.com/features/2021-federal-reserve-race-inequality/?sref=ZvMMMOkz

The Federal Reserve is also a key incubator for economists and a generator of economic data. Even small shifts in the institution's decisions about what data to collect using what research tools can have enormous impacts on Americans' understanding of their economy. For example, just one paper from the Minnesota Fed in the 2000's spurred a wave of research on how early childhood education produces enormous returns of investment throughout a student's life.

Right now, Black economists are less represented within the Fed than within the economics profession as a whole, from the Ph.D level on down. In January, only two of the Fed's 417 staff economists were Black.[4] There has never been a Black woman on the Fed's Board of Governors, nor a Latinx Federal Reserve Bank President.

This inevitably influences the kinds of studies the Fed undertakes and the kinds of data it considers. To follow through on your promise to lead a government which "looks like America," we urge you to prioritize leadership from the top which reflects not just personal diversity of race, gender, sexuality, and religion; but which will actually change Fed policy and activity to reflect necessary correctives informed by their under-represented experiences.

Climate Change

The existential threat of climate change requires fundamental transformations across every segment of American life, including the Federal Reserve, which has failed thus far to efficiently protect the American economy from systemic risks posed by warming. Indeed, the Fed only joined the global Network of Central Banks and Supervisors for Greening the Financial System last December, once it was clear that you would be inaugurated as the next President.

The Fed uniquely has the power to mandate that systemically important financial institutions divest from destabilizing and risky assets, including carbon and methane-producing assets.[5] It would be a dereliction of the Fed's responsibilities for it not to require SIFIs to immediately cease providing capital to industries which destroy the planet's ability to sustain human society. The Fed can also add climate considerations to its bank stress tests and increase minimum capital requirements for banks invested in fossil fuel assets and infrastructure. Doing so would allow the Fed to appropriately facilitate economy-wide decarbonization and prevent the clean energy transition from threatening financial stability.

The Fed has already taken action on this issue, on the side of polluters. After significant lobbying by the fossil fuel industry, the Fed included oil and gas firms which had been indebted long before the COVID-19 crisis in its Main Street Lending Program in 2020.[6] To truly fulfill its

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[4] Why Are There So Few Black Economists At The Fed?, New York Times, February 2, 2021 https://www.nytimes.com/2021/02/02/business/economy/federal-reserve-diversity.html

[5] Graham Steele, A Regulatory Green Light: How Dodd-Frank Can Address Wall Street's Role In The Climate Crisis, The Great Democracy Initiative, January 2020 https://greatdemocracyinitiative.org/wp-content/uploads/2020/01/Final_Greenlight_Steele.pdf

[6] Gregg Gelzinis Michael Madowitz and Divya Vijay, The Fed's Oil and Gas Bailout Is A Mistake, Center for American Progress, July 31, 2020

mandate, the Fed should explicitly favor climate-forward assets and penalize climate-damaging assets in its investments, interventions, and regulations. Interpreting the Fed's mandate as an essential tool in your whole-of-government approach will not threaten voters' views of your administration — in fact, a significant majority of voters agree the federal government should enforce more safeguards on banks to prevent a financial crisis driven by climate change.[7]

The time for non-controversial actions was four decades ago; today we must have leaders willing to make enemies of those who destabilize our planet. This should be an overriding priority in all of your appointments, and certainly those as important as Fed Governors.

Ensuring Full Employment

Since the Great Recession, activists and academics have urged the Fed to more heavily weight its responsibility to maximize employment than it had previously, particularly through maintaining lower interest rates. We wholeheartedly endorse this proposition.

Since the stagflation of the 1970s, the Fed has been unduly biased toward oversensitivity to inflationary pressures — even temporary pressures, like those we are experiencing currently due primarily to pandemic-related supply chain shocks. This bias has caused harsher recessions with higher unemployment rates. There is now an overwhelming consensus among economists that had the Fed kept interest rates lower for longer in the wake of the Great Recession, the high unemployment of the early 2010s might have been severely lessened.

Low-to-nonexistent unemployment is not only a moral policy goal, it is also crucial to workers' abilities to bargain for better wages and benefits from employers, especially through unions. We applaud your Build Back Better agenda's embrace of labor concerns, and encourage you to continue listening to workers as you consider your Federal Reserve appointments.

We also believe that the Federal Reserve should fully incorporate its focus on full employment into its emergency lending activities, to ensure that any rescue benefits Main Street as much as it does Wall Street. Failing to do so will exacerbate existing inequality[8], and interfere with the Board's full employment mandate[9].

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https://www.americanprogress.org/issues/economy/reports/2020/07/31/488320/feds-oil-gas-bailout-mistake/

[7] Danielle Deseroth, Memo: Voters Support Climate Finance Regulations, Data For Progress, May 20, 2021 https://www.dataforprogress.org/memos/voters-support-climate-finance-regulations

[8] Gene Ludwig and Sarah Bloom Raskin, How the Fed's Rescue Program Is Worsening Inequality, Politico, May 28, 2020, https://www.politico.com/news/agenda/2020/05/28/how-the-feds-rescue-program-is-worsening-inequality-287379

[9] Representative James Clyburn, speaking in a hearing of the Select Committee on the Coronavirus. "In the dual mandate that the Fed has, one of them is Maximum Employment. Yet, the Fed bought corporate bonds issued by companies that laid off more than 1 million workers since March. That doesn't sound like maximum employment to me." https://twitter.com/RealBankReform/status/1308790982306140161; and https://coronavirus.house.gov/sites/democrats.coronavirus.house.gov/files/Staff%20Report%20%289-23-2020%29_FINAL.pdf.

Better supporting states and municipalities is similarly essential to the cause of full employment. Unlike its responses to corporate distress, the Fed has been overly cautious during the COVID-19 pandemic in supporting state and local governments, with severe consequences for public employees — who are disproportionately people of color, as Congress has pointed out in its criticisms of the implementation of the Municipal Lending Program[10]. We urge you to nominate individuals who understand the dangers of the K-shaped recovery, and who will act to protect workers.

Conclusion

We hope that these considerations factor into your decisions about the Federal Reserve during your Presidential term. These will be among the most important personnel decisions you make during your presidency. We urge you to think deeply, systemically, and bravely as you weigh the path forward.

Signed:

350.org
20/20 Vision DC
Action Center on Race & the Economy (ACRE)
American Economic Liberties Project
Americans for Financial Reform
Athena Coalition
Climate Hawks Vote
Earth Action Inc
Friends of the Earth US
Greenpeace USA
Institute for Agriculture and Trade Policy
Main Street Alliance
New York Communities for Change
Open Markets Institute
Our Money Campaign
People's Parity Project
Rainforest Action Network
Revolving Door Project
Service Employees International Union
Sierra Club
Texas Campaign for the Environment
Woodstock Institute

[10] Tlaib, Progressive Leaders Urge Federal Reserve Chairman Powell to Improve Lending Terms for States and Cities, Stave Off Public Sector Layoffs and Cuts, August 7, 2020, https://tlaib.house.gov/media/press-releases/tlaib-progressive-leaders-urge-federal-reserve-improve-lending.

Raúl Carrillo - Associate Research Scholar, Yale Law School
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NOTE: The institutional affiliations of the individuals listed above are for identification purposes only. Their signatures do not necessarily reflect the institutional views of their organizations.