

Bloomberg

December 5, 2009

Geithner Says He Supports Congress Inquiry Into Fed Governance Share Business

Written by Craig Torres

U.S. Treasury Secretary Timothy Geithner broke ranks with his former central bank colleagues and said he would support moves by Congress to take a look at how regional Federal Reserve bank presidents are appointed.

“I think it is very appropriate, and I would be completely supportive of the Congress taking a look at that broader governance structure” of regional Fed banks, Geithner said yesterday in an interview for Bloomberg Television’s “Political Capital With Al Hunt,” airing this weekend.

“You do not want to have any public institution in the position where its judgments, the judgments of their executives, are viewed through the prism of concern they are subject to influence of the financial community,” Geithner said. While that was “never the case,” he added, limiting such concerns would help protect the Fed, he said.

Federal Reserve spokeswoman Michelle Smith wasn’t immediately available for comment.

The Treasury Secretary commented a day after Federal Reserve Chairman Ben S. Bernanke defended the regional structure of the central bank as Congress considers the

biggest overhaul of Fed powers since the 1930s. Lawmakers say private-sector banks have too much influence at the Fed, and that the regional bank presidents focus too much on inflation at the expense of job growth.

‘Incestuous Relationships’

Senate Banking Committee Chairman Christopher Dodd told Bernanke Dec. 3 that the regional Fed board structure leads to conflicts of interest and an “incestuous financial relationship” detrimental to the Fed.

The remarks came at a hearing on Bernanke’s nomination to a second four-year term. Bernanke told Dodd that Fed directors are chosen from “a wide representative cross-section” of community leaders.

Congress may be “overemphasizing the influence of reserve bank boards,” said Robert McTeer, former president of the Fed bank of Dallas, a city where he is now a distinguished fellow at the National Center for Policy Analysis. “They just don’t have that much power and influence.”

McTeer said regional Fed bank presidents help provided an independent perspective to the Washington-based Board of Governors.

“The beauty of the Fed is that it is not just another Washington institution,” McTeer said. “It has this regional presence.”

Under a draft bill released Nov. 10 by Dodd, each regional Fed board chairman would be subject to White House appointment and Senate approval. House Democrats have called for an exploration of how the Fed is governed.

Board of Governors

“I doubt very much that by a year from now Fed presidents are going to have as big a role as they now have,” Financial Services Committee Chairman Barney Frank told reporters after a Nov. 17 vote in favor of limiting some of the regional Fed bank officials’ powers to participate in decisions by the Washington- based Board of Governors.

Frank said the presidents are “private citizens” who shouldn’t have “governmental powers.”

St. Louis Fed President James Bullard said last month that subjecting the presidents to Senate confirmation would be a “blatant politicization” of the institution.

Richmond Fed President Jeffrey Lacker said Nov. 17 that the mix of private and public influence has “helped us keep focused on long-run objectives.”

“I wouldn’t want to see the reserve bank governance mechanism politicized in any way,” Lacker, 54, told reporters after a speech. Asked if Dodd’s plan would politicize the process, Lacker said: “I think it could.”

The presidents of Richmond, St. Louis or any other Fed bank haven’t had the interactions with the largest financial institutions as did Geithner, who served as president of the Fed Bank of New York starting in November 2003.

Organized Rescues

During his tenure at the New York Fed, Geithner and Bernanke helped organize rescues of Bear Stearns Cos. and American International Group Inc. using emergency lending powers that have prompted additional congressional scrutiny of the Fed.

The Fed assistance to AIG “transferred tens of billions of dollars of cash” to AIG counterparties, paying creditors in full, a November report from the Office of the Special Inspector General for the Troubled Asset Relief Program said.

Geithner was confirmed as Treasury secretary by the Senate in January.