

'WHO WILL CHOOSE YOUR REPLACEMENT, TOM?'

During my frequent travels through the Tenth Federal Reserve District, I am often asked a wide range of questions related to the economy and banking. As 2010 drew to a close, I began to notice a recurrence of a question on a new topic that hits especially close to home: "Who will choose your replacement, Tom?"

Under rules established by the Board of Governors of the Federal Reserve System, the presidents of the 12 regional Federal Reserve Banks must retire at age 65. For me, that will happen later in 2011. Therefore, the selection of a new president of the Kansas City Fed will be an important event that affects the future of this Reserve Bank and its Reserve District.

Local selection

The short answer to this question is that members of the Federal Reserve Bank of Kansas City's Board of Directors will select the next president. The Board of Governors in Washington may veto a candidate for cause, but they do not select the president. I believe it is important for the public to understand this process, and to do that, it is first necessary to understand the structure of the Federal Reserve System.

Congress created the Federal Reserve System in 1913. It recognized that a central bank must be accountable to the government, so it created a Board of Governors in Washington, D.C. The Board is a government agency with broad oversight for the entire Federal Reserve System. But Congress also understood that politics and the printing press are a risky combination when it comes to the soundness of the currency and therefore it also focused on limiting the government's ability to manipulate Fed-

eral Reserve policies for short-run political gain. As a result, the congressional founders of the Federal Reserve in an effort to counterbalance the pressures toward political control, created a system of semi-independent Federal Reserve Banks located across the United States. These Banks operate under the oversight of local Boards of Directors that are filled through a mix of appointed and elected positions. This decentralized network of Banks ensures broad representation of all regions of the country in national monetary, banking and payments policy.

My years as a regional president have only reinforced my confidence in the importance and value of the Federal Reserve's regional structure. The independent views and operational experience of the Reserve Banks are absolutely essential to the success of not only the Banks themselves, but also the institution and our nation.

The local Board of Directors of a Reserve Bank is made up of nine members. Those who closely followed Congress' work on the Dodd-Frank legislation last year will recall that the topic of Reserve Bank presidents was a part of that process. Specifically, the legislation prohibits the three bankers who are elected by their peers to seats on the board of each regional Federal Reserve Bank from having a role in the presidential selection, leaving six nonbank board members from the region—representing business, community and labor—to pick my



successor. Most importantly, although this new rule will reduce the number of Federal Reserve Bank of Kansas City directors involved in the process, it does not change the fact that the next president of the Federal Reserve Bank of Kansas City—like all who have held the position since the Bank’s founding—will be selected by individuals from the Tenth Federal Reserve District.

There is a prescribed process for conducting a Reserve Bank president search. The Reserve

Qualifications

The directors of the Federal Reserve Bank of Kansas City are fully cognizant of the importance of their role in selecting the Reserve Bank’s president. Although the presidency of a Federal Reserve Bank has many responsibilities in each of the Federal Reserve’s three mission areas, the most publicly visible of these is participation on the Federal Reserve’s Federal Open Market Committee, the FOMC, which sets the nation’s monetary policy. The president has a voting role on the FOMC. Although FOMC meetings involve a majority of seven FOMC governors based in Washington, five of its members are Reserve Bank presidents. Also, history has shown that the governors positions turn over relatively quickly. In fact, in recent Fed history, the tenure of a regional Federal Reserve Bank president has been about twice that of a Federal Reserve governor. Critical experience for this committee comes from the presidents.

Beyond monetary policy, a Reserve Bank president leads a management team that runs major operations involving, in our Bank’s instance, more than 1,300 employees located in Kansas City, Denver, Omaha and Oklahoma City. These employees help make sure our national payments system functions well; provide liquidity and review the operational integrity of financial institutions located within the Tenth Federal Reserve District. Thus, given the wide range of responsibilities, it is not surprising that Federal Reserve Bank presidents come from a range of backgrounds.

My predecessor at the Federal Reserve Bank of Kansas City was an attorney who left private practice to join the Bank as legal



THE FEDERAL OPEN MARKET COMMITTEE (FOMC) is made up of the Federal Reserve Board of Governors and the regional Federal Reserve Bank presidents. Kansas City Fed President Tom Hoenig is the most senior member of the FOMC. He faces mandatory retirement in 2011.

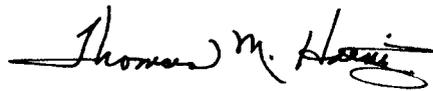
Bank directors will form a search committee, and use an outside search firm to help solicit and vet candidates. The process is expected to start early in 2011 and to be completed in time to allow a smooth transition here.

counsel in 1968 and eight years later became president. Among the presidents early in our history were a former Kansas governor and a banker from Wichita. Other Reserve Bank presidents have backgrounds in business and economics. I am the first economist to have served as the Federal Reserve Bank of Kansas City's president. However, prior to being selected, I spent my entire professional career in banking supervision here.

Clearly, there is no common template for a Federal Reserve Bank president. Likewise, current Federal Reserve governors come from a range of backgrounds, including two academic economists, a law professor, a state banking commissioner, a community banker and a former Wall Street banker.

Based on my experience in being selected and working with our current board of directors, I know that the person chosen as the next president of the Federal Reserve Bank of Kansas City will need to have a proven commitment to the structure of the Federal Reserve System, knowledge of our national economy and a deep understanding of the seven states of the Tenth District. The leadership and counsel of our directors has been especially valuable to me throughout my career and, even more so, during the recent financial turmoil and in its aftermath. Our directors are focused on making sure that the next president of the Federal Reserve Bank of Kansas City is someone who is not only familiar with the people and places of this part of the United States, but is also someone who shares the same values and ideals, and understands the value of independent, thoughtful contributions of this distinct Federal Reserve region.

You will hear more about this process as it gets under way in the months to come. In the meantime, my schedule will remain full as I expect to continue working with my colleagues in helping the Federal Reserve take on challenges in 2011.



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Learn more about the Fed's structure and directors at KansasCityFed.org/aboutus, or in a story profiling four directors on Page 20 of this issue of TEN magazine.