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Democracy Dies in Darkness

With pick for treasury secretary, Biden will tip hand about his economic agenda

A leading candidate is Fed governor Lael Brainard, a senior Treasury Department official under Obama

By **Rachel Siegel**

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President-elect Joe Biden faces a crucial decision in the coming weeks that could dictate how he plans to run his administration and shepherd the nation's economy: whom to nominate as treasury secretary.

A leading candidate for the post is Federal Reserve governor Lael Brainard, who served as a senior Treasury Department official in the Obama administration. Brainard has broad policymaking experience, particularly during economic crises, as well as wide respect among international foreign ministries and central banks from her time as the department's top diplomat.

At the same time, Biden could face pressure from the Democratic Party's left wing to pick a more liberal figure, someone who could push for aggressive financial overhauls and prove more adversarial to supporters of free trade. Such a nominee, however, could face difficulty winning Senate confirmation if Republicans retain control after two January runoffs in Georgia.

During the campaign, Biden was able to bring together two wings of his party as voters unified to defeat President Trump. But picking Cabinet officials who satisfy both groups will be complicated, especially for a role as crucial to Biden's economic agenda as treasury chief. Come January, the Biden administration is expected to prioritize a massive stimulus package to shore up the economy's shaky recovery. Biden also campaigned on tax increases for businesses and some of the wealthiest Americans — issues that the next secretary will have to pursue.

If nominated and confirmed by the Senate, Brainard would be the first female treasury secretary. She would also have the distinction of having served in government during multiple tumultuous economic crises. She was at the department during and in the wake of the global financial crisis, and she has played a major role at the Fed during the coronavirus pandemic. As the coronavirus recession looms large and the pandemic escalates heading into winter, Brainard's supporters say her career and past work as a financial diplomat make her uniquely qualified to steer a new administration's economic plan for the country.

"We have been in a regime where there is a sense that cooperating with other countries weakens the U.S. She felt and acted completely differently," said Eswar Prasad, a professor of trade policy at Cornell University who worked with Brainard at the Brookings Institution. "She's a master in the art of gentle persuasion rather than using sticks to get people to do the right thing."

Brainard's potential nomination, though, would face the Democratic Party's crosscurrents of economic populism, which Sens. Bernie Sanders (I-Vt.) and Elizabeth Warren (D-Mass.) tapped into during their primary runs. Some liberal groups have voiced concerns about Brainard's promotion of free-trade pacts during the Obama administration. But they have not mounted a vigorous effort to undermine her candidacy for the Treasury Department post.

"If she becomes treasury secretary, her policy is going to be Obama 2.0 on trade," said Peter Gowan, an economic expert at the Democracy Collaborative, a left-leaning think tank.

Brainard declined to comment.

Brainard joined the Fed board in 2014 and, most recently, has played a central role in implementing the Fed's vast economic response since the coronavirus crisis began. She is the lone Democrat on the Fed board and has bucked her colleagues by consistently dissenting on policies that relax rules on the banking system.

Before joining the Fed, Brainard served as undersecretary for international affairs at the Treasury Department and a top deputy to then-Treasury Secretary Timothy F. Geithner. Brainard led coordination of the Obama administration's global economic and financial policy, including during Europe's sovereign-debt crisis.

The new administration will come to office at an extremely fraught time for the nation's economy. A surge in coronavirus cases has economists and public health officials bracing for a devastating winter. Economists warn that strong gains made in the third quarter could be thwarted by the end of 2020 as the pandemic rages on. It is also unclear whether Congress or the Trump administration will agree on a stimulus deal in the lame-duck session, despite the fact that scores of households and businesses will be strapped to make it until January.

No matter whom Biden chooses, the treasury secretary will be one of his top economic advisers and play an instrumental role in another stimulus deal. The secretary will also work closely with Fed Chair Jerome H. Powell, especially concerning the Fed's pandemic lending programs. Those close to Brainard say she has a strong working relationship with Powell. This year, Powell brought Brainard into the Fed's close inner circle — a group traditionally confined to the Fed chair, vice chair and New York Fed president — that shapes the monetary policy agenda.

Earlier in Brainard's career, she served as deputy national economic adviser in the Clinton White House during the Asian financial crisis. Between 2001 and 2008, Brainard was vice president and the founding director of the Global Economy and Development program at the Brookings Institution. She received a PhD in economics from Harvard University and taught at the Massachusetts Institute of Technology. Brainard also worked in management consulting at McKinsey & Co.

Brainard, the Fed's only remaining Obama-appointed governor, has garnered particular praise from the left for her consistent objections to rollbacks of Dodd-Frank banking regulations. Brainard has long maintained that weakening rules for the nation's banking system, even when the economy is healthy, puts the country's broader financial system at risk. While votes by the Fed board are typically unanimous, Brainard has issued roughly 20 dissents since 2018 on issues including capital requirements and bank acquisitions.

Brainard doubled down when the pandemic thrust the economy into a sudden recession this year.

In June, the Fed put new restrictions on how the country's biggest banks spend capital, ordering them to suspend their stock buyback programs and limit dividend payments to shareholders. Brainard urged for more, calling on her colleagues to block dividend payouts to shareholders, not just limit them.

“I do not support giving the green light for large banks to deplete capital, which raises the risk they will need to tighten credit or rebuild capital during the recovery,” Brainard wrote in her dissent. “This policy fails to learn a key lesson of the financial crisis, and I cannot support it.”

Despite Brainard’s firm stance on regulatory issues, the banking industry is likely to be more comfortable with Brainard as the leader at the Treasury Department. That is especially the case in contrast with a candidate such as Warren.

“There’s a level of familiarity there, even if you disagree with somebody on their policies or their policy proposals,” said Brian Gardner, chief Washington policy strategist at Stifel Financial Corp. “I think there is a general level of comfort that they know her. She’s more of a mainstream type of candidate or nominee. I think the industry by and large is okay with her.”

That could change if Brainard is instead promoted to Fed chair when Powell’s term expires in 2022, giving Brainard a much more focused role overseeing the country’s banking system. After being nominated by Trump, Powell became Fed chair in 2018 and has sided with the Fed’s other Republicans on banking deregulation.

Economists and Fed watchers say Biden is unlikely to replace Powell, who has been the face of the Fed’s pandemic response and who has strong relationships with Republicans and Democrats on Capitol Hill. Biden might also be encouraged to keep Powell at the Fed for the sake of continuity, especially given the economic uncertainty still ahead. At the same time, Powell’s critics on the left say that he has gone too far to ease banking regulations and that Biden should put a Democrat in his place.

Brainard has led the Fed’s attempts to modernize the Community Reinvestment Act, or CRA, which was crafted to encourage banks to lend in low-income neighborhoods. Those efforts have put Brainard and the Fed in conflict with other banking regulators, whose proposals to revamp the historic anti-redlining law have not gotten the central bank’s support.

Sam Bell, founder of Employ America, a left-leaning group that advocates on monetary policy, pointed to Brainard’s work on the CRA as one example of her ability to persuade Powell on certain banking issues, despite her long history of regulatory dissents. Bell said it would be a “total asset” to have a treasury secretary in place who could work effectively with Powell.

“Clearly they have a good relationship, and he has moved to her lane,” Bell said. “She’s someone who’s been able to dissent but still has internal pull on a major policy fight.”

Brainard also cautioned against the Fed hiking interest rates starting in 2015, years into a slow but steady expansion that had Fed leaders speculating on the right time to slow the economy and, as was thought at the time, stave off a rise in inflation despite potential effects on unemployment. The Fed's gradual rate hikes in subsequent years have since been criticized as undercutting full employment.

The Fed's approach to inflation and unemployment changed this year through a new framework that signaled the Fed would not raise interest rates to respond to low unemployment. In a speech a few days later, Brainard suggested the old approach risked "an unwarranted loss of opportunity for many Americans."

Had the Fed's new framework been in place years ago, Brainard said, "it is likely that accommodation would have been withdrawn later and the gains would have been greater."

As undersecretary for international affairs in the Obama Treasury Department, Brainard was a crucial negotiator during Europe's debt crisis, often exerting her influence behind closed doors. The daughter of a Foreign Service officer, Brainard was raised in Poland and Germany during the Cold War and is fluent in German.

Soon, the question may become how Brainard would apply her record to the top post at the Treasury Department. Bank regulation falls largely outside the department's purview, but its secretary also chairs the Financial Stability Oversight Council, whose mandate is to identify and respond to emerging risks in the country's financial system. The council could be one avenue through which Brainard could push an agenda intent on rooting out financial hazards.

Brainard has been among the most outspoken Fed leaders urging Congress for more fiscal aid, especially when it comes to narrowing the economy's racial and gender gaps. Brainard has also emphasized the risks of withdrawing fiscal support too soon and, in turn, laying the foundation for a deeper crisis.

"While the strong bounce-back in activity from the initial devastation of covid-19 was heartening, the recovery thus far has been highly uneven and the path ahead is highly uncertain," Brainard said last month. "Strong support from monetary policy — if combined with additional targeted fiscal support — can turn a K-shaped recovery into a broad-based and inclusive recovery that delivers better outcomes overall."

Jeff Stein contributed to this report.