



## View from the Beltway

# The Brainard Effect

BY OWEN ULLMANN

*Will Biden's new economic czar also be his political savior?*

“The economy, stupid.”

—Strategist **James Carville**, explaining a key message to focus on during Bill Clinton's successful campaign for president in 1992.

**M**odern U.S. presidents win re-election when the economy is doing well and are thrown out of office during difficult economic times. Just ask Herbert Hoover, Jimmy Carter, George H.W. Bush, and Donald Trump. Joe Biden is keenly aware of that track record, which is why he has chosen former Federal Reserve Vice Chair Lael Brainard to be his economic policy signal caller as director of the White House National Economic Council going into the 2024 election.

Brainard is amply skilled in all the areas needed to coordinate smart policies that increase the prospects for good times in an election year. She is exceedingly bright, has extensive experience in a range of economic

issues, and has a unique ability to forge a consensus on thorny problems among warring parties, a talent particularly helpful in a job that requires coordination with a myriad of headstrong agency leaders. Her deft abilities com-

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bined with the luck of good timing in a most uncertain economic cycle may well help Biden win a second term. In the process, her success will earn her a well-deserved promotion as the next secretary of the Treasury, a job she has long coveted.

Brainard already proved her value to Biden in less than a month on the job when she became the White House point person working with the Federal Reserve and Treasury to rush together a financial bailout plan in

March to help stem a spreading banking panic following the collapse of two regional banks: Silicon Valley Bank in California and Signature Bank in New York. Her eight years at the Fed, where she played a key role in banking regulation, served her well as top officials spent a weekend hammering out an emergency rescue program that promised to protect every depositor of the banks, including corporations and those with multi-million-dollar accounts. Some White House officials worried about the political optics of a bailout of wealthy depositors, but those concerns were trumped by worries that a financial contagion could send the overall economy into a nosedive ahead of an election year. Brainard also was at the center of an emergency government effort to persuade major banks

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National Economic Council  
Director **Lael Brainard**.

## Big Future Ahead

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to stabilize First Republic with a \$30 billion infusion.

The banking crisis put Brainard's skills on display. "She's very data-driven, very analytical, looking at a broad range of facts, whether it's monetary policy or financial regulatory policy or financial stability issues," said former Fed colleague Randal Quarles, who was vice chair for supervision from 2017 to 2021. "Her views were always very informative."

Quarles, now executive chairman of the Cynosure Group, a financial services company based in Salt Lake City, Utah, was a Trump appointee with a very different outlook than Brainard, a lifelong Democrat. "She and I disagreed about almost everything, including what to have for lunch," he said with a laugh, "but it was always a very useful discussion with Lael because of how grounded in the facts she was and how analytical she was as opposed to purely reverse engineering her conclusions. Lael and I were friends despite our disagreements. We were sort of like the Scalia and RBG of the Fed [the friendship between conservative Supreme Court Justice Antonin Scalia and liberal colleague Ruth Bader Ginsburg]. She was always measured and intellectual and reasoned in her positions."

During her tenure at the Fed, Brainard clearly was a dove who believed that the central bank could let unemployment run lower than it previously thought possible without fanning the flames of inflation. But once inflation soared during the covid pandemic because of the combined effects of supply bottlenecks and huge government stimulus that stoked consumer demand, Brainard supported every move by the Federal Open Market

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Committee over the past year to boost the federal funds rate at a record clip.

Where Brainard's views stood out most at the Fed was in the field of banking regulation. She emphasized the importance for banks to show prudence in lending where there were risks related to climate change, and she resisted efforts to give banks more flexibility in meeting Community Reinvestment Act requirements that they lend to individuals and businesses in economically distressed areas. Her stances in these areas have provoked complaints among some Republicans that she was overly political at the

ostensibly non-partisan and independent Fed.

When Biden named Brainard his new NEC director to replace the departing Brian Deese, Representative Patrick McHenry (R-NC) issued a statement on February 14 that said the appointment "signals more of the same politicized economic mismanagement from the administration." He accused Brainard of pursuing a political agenda to expand executive regulatory authority to "politicize our financial system."

Some critics even said she spent an inordinate amount of time at the White House while working at the Fed. If so, perhaps it was to meet with her husband, Kurt Campbell, Biden's highly regarded China specialist on the National Security Council, where he has advocated taking a harder line in dealing with China as an economic and military competitor.

Supporters of Brainard at the Fed strongly dispute any suggestion that she was surreptitiously coordinating policy with the White House while a governor, claiming she spent marathon hours working at the Fed. Nor, they point out, has she advocated extreme views on reining in bank lending based on climate change concerns. For example, she never said the Fed should outlaw banks from giving loans to oil companies, noted an associate at the Fed. "Every single time she talked about climate risks, she made sure to say, 'I want to be clear what I'm saying here, which is banks should be free to bank with whomever they want as long as they're legal businesses. What I'm saying is they just need to account for the risks that come along with those customers,'" the associate added. "So, this idea that she's too political is a sign that they think she's really, really good."

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role for the government in the operations of the financial sector and with discretionary supervisory action as distinct from regulation than I would be, but I wouldn't have said she was

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At the Fed, Brainard demonstrated both her pragmatic side and her ability to forge a consensus during a protracted dispute over revising the 1977 Community Reinvestment Act. Joseph Otting, a bank CEO named by President Donald Trump to become Comptroller of the Currency in 2017, wanted to change the CRA rules to give examiners less discretion in determining whether they were making adequate loans in low-income communities. Otting wanted compliance to be based purely on data benchmarks, a change banks did not like because it would require them to produce so much new data to analyze. During the Act's forty-year existence, banks had become comfortable with the system for determining compliance and balked at Otting's insistence on a new data-based formula.

Another problem with Otting's data approach was that banks would get credits for lending millions of dollars to build a casino in the middle of a slum, defeating the point of the CRA, which is to help residents in poor neighborhoods get mortgages and small business loans. Brainard spearheaded a Fed compromise that required more data but less than Otting wanted. It also took into account a

bank's specific circumstances that varied greatly across the country. "The proposal by the OCC [Office of the Comptroller of the Currency] was not going to be practical, and the banks didn't like it," recalled a Fed official involved in the discussions at the time. "So, Lael put together a framework that was going to reinvigorate the actual purpose of the CRA while still being more acceptable to the banks than the formulaic approach that the OCC was putting forward. It's a function of her brain, of her analytical approach of saying, 'Here's a task. How do I solve it?' It was reasonably impressive."

Brainard played a similar role as a policy coordinator during her tenure as President Barack Obama's

undersecretary of the Treasury for international affairs from 2010 through 2013. During that time, she traveled continually to Europe to hammer out rescue plans with the International Monetary Fund and the European Union to stem a brewing debt crisis in Greece and elsewhere in Europe that threatened to bring the continent crashing down.

A 2012 *New York Times* article praised Brainard for being a key figure in solving the crisis. Throughout tough negotiations, "Ms. Brainard has won a reputation as even-keeled, never ruffled, and extraordinarily detailed. One colleague described her as Vulcan," the *Times* reported. The story quoted an unnamed German official who said,

## Not an Ideologue

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## Brainard's Critics

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It didn’t hurt that she was fluent in German. The daughter of a U.S. diplomat, she was born in Germany and spent her early childhood there and in Poland. She received a B.A. from Wesleyan University and a Ph.D. in economics from Harvard University. From there, she taught at the Massachusetts Institute of Technology’s Sloan School of Management and worked in the White House as President Clinton’s deputy assistant for international economics. In that job, she was Clinton’s “sherpa” to the annual economic summit of industrial nations. She was a scholar at the Brookings Institution before becoming Obama’s undersecretary

of the Treasury, the highest-ranking woman in the history of the department at the time.

After Biden’s election, Brainard was in the running to become the first female secretary of the Treasury, but former Fed chair Janet Yellen got the job and the historic achievement, in part because some Biden advisers thought Brainard was not as collegial a team player as Yellen and also because they valued her as the only Democrat on the Fed Board of Governors. Brainard also made the short list of candidates to replace Fed Chair Jerome “Jay” Powell when his term expired in early 2022, but Yellen—though a mentor and admirer of Brainard—thought Powell did a commendable job and deserved reappointment. Biden followed her advice.

As a consolation prize, Biden—with Yellen’s blessing—named Brainard Fed vice chair to fill a vacancy on the board.

If Biden wins re-election and Yellen, now seventy-six, decides to retire, Brainard is a virtual shoo-in to replace her—unless the NEC director would rather succeed Powell when his current term ends in 2026. “It is a fact about Lael—and I don’t think that it’s a criticism of her—she’s ambitious. She wants the next job,” observed a former Fed colleague. “And I do think that she would have been more comfortable with fewer dissents from some of our regulatory actions during the Trump years if she had not realized that those dissents would support her ambition for a bigger office.” This official speculated that some left-wing Democrats were less than enthralled with Brainard because they considered her too moderate in her views. “I do think that her dissents on the regulatory side would not have been as great had it not been for her desire to be seen as a team player. She wanted the next step in her career, and there’s nothing wrong with that.”

“She would be a very good Treasury secretary,” agreed Quarles. “I would disagree with probably every single substantive proposal that she put forward during that time. But she would be very good in the job.”

If that is indeed her goal, Brainard has her hands full at the NEC: avoiding another financial crisis, dealing with the coming battle with House Republicans over raising the debt ceiling and averting an unprecedented default, hoping the Fed dampens inflation without tripping the economy into a prolonged recession, and confronting an ever-more-aggressive China in the economics arena.

Should Brainard overcome these hurdles and pave the way for Biden to run in 2024 with a bright economy as his selling point, she would more than deserve the promotion. ◆