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UPDATE 2-Senior U.S. Treasury official to step down, seen as Fed candidate

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By Jason Lange

WASHINGTON, Nov 4 (Reuters) - Lael Brainard, a top economic diplomat at the U.S. Treasury, will step down from her post on Friday, a Treasury official said, amid reports she is under consideration for a seat on the Federal Reserve Board.

As undersecretary of the Treasury for international affairs since 2010, Brainard has played a key role in pushing China toward a flexible currency and pressing Europe to tackle its debt crisis more aggressively.

The Washington Post and the Wall Street Journal have reported that Brainard is under consideration to fill a vacancy at the Fed. The Treasury official, who spoke on Monday on condition of anonymity, did not disclose the reason for the departure and a White House spokeswoman declined to comment.

Brainard cut her policymaking teeth during the Clinton administration, working alongside many officials who later ended up serving under President Barack Obama, including top White House economic adviser Gene Sperling and Treasury Secretary Jack Lew.

Brainard, who has a doctorate in economics from Harvard University, served as deputy director of Clinton's National Economic Council, where she focused on international trade and financial policy. She was also the U.S. representative to the meetings of the Group of Eight industrialized nations.

The Senate took more than a year to confirm Brainard for her current post, slowed by a committee probe into her personal taxes.

In recent months, she has been seen as a steady hand on international economics for Lew, who became the top Treasury official in February and who had focused mainly on budget issues during his long career in government.

Obama is likely to need to fill several seats on the Fed's seven-person board in the coming months. Fed Governor Elizabeth Duke stepped down in August; Fed Chairman Ben Bernanke is expected to give up his board seat when his term as chairman expires at the end of January; and Obama has nominated Fed Governor Sarah Raskin for a top Treasury post.

In addition, Fed Governor Jerome Powell's term expires in January, although Obama is expected to renominate him.

INTERNATIONAL EXPERIENCE

If nominated to the Fed, Brainard, 51, would bring a familiarity with top economic officials around the globe.

She accompanied Lew on his first two foreign trips, to Beijing and to Europe, and represented him at several international gatherings, including the Group of 20 meetings in St. Petersburg in September.

Before joining the Obama administration, Brainard worked as a senior fellow at the Brookings Institution, where she helped found the think-tank's global economy and development program.

In her academic work, she has focused on financial policy and trade issues, and she advised the Obama campaign on trade policy in 2008. While at Brookings, she also wrote about development, foreign aid and climate change.

She is not an expert on monetary policy, though she has published articles about financial regulation and labor markets.

Eswar Prasad, a trade and international economy professor whom Brainard hired at Brookings, said her international credibility and focus on labor markets and distributional issues would bring a new perspective to the Fed.

"It would go beyond the traditional focus on issues such as growth, stability and unemployment, to thinking more about distributional issues, (and) about what happens to different sectors and industries as a consequence of monetary policy," Prasad said.

He also said Brainard's international experience could help the Fed to more clearly communicate its policy message to a global audience.

Brainard has written several articles about the effects of globalization and offshore production on domestic employment.

She has also looked at the debate over structural versus cyclical unemployment - an issue front-and-center in current Fed policy discussions as officials try to gauge how many people who have dropped out of the labor force are likely to return.

In testimony to Congress in 2007, she argued that the United States should pass permanent wage insurance to lessen the impact of globalization on American workers.

She was previously a professor of applied economics at MIT's Sloan School of Management, teaching graduate business courses on international trade and financial policy. She also worked at the consulting firm McKinsey and on microfinance in West Africa.

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