BloombergBusinessweek
News From Bloomberg

Romney Bashing Bernanke Rejects Mankiw's Views

By Joshua Zumbrun

October 01, 2012

Mitt Romney is shunning the monetary policy views of one of his top advisers, Harvard University's Greg Mankiw, who has expressed support for Federal Reserve Chairman Ben S. Bernanke and his record stimulus.

Instead, the Republican presidential candidate has criticized the Fed in ways that echo the opinions of another adviser, John Taylor. The Stanford University professor and former Treasury Department official has said the Fed's large- scale asset purchases risk debasing the dollar while failing to alleviate unemployment.

"The views Romney has expressed and other top Republicans have expressed are much closer to Taylor's than to Mankiw's," said Joseph Gagnon, a senior fellow at the Peterson Institute for International Economics in Washington and a former Fed economist. "Mankiw's true beliefs are close to Bernanke's" based on his research and writing on the central bank, Gagnon said.

By leaning toward Taylor's viewpoint, Romney is signaling what he'd want in a Fed leader should he win the Nov. 6 election and gain the power to choose a successor to Bernanke. Romney has said he won't reappoint Bernanke, 58, whose second term ends in January 2014.

Mankiw, the Robert M. Beren professor of economics at Harvard, is the author of "Principles of Economics," an introductory textbook in its sixth edition that has been used at institutions including the University of Chicago, Columbia University and Oberlin College.

At a Sept. 7, 2011, debate, Romney said Bernanke's second round of quantitative easing, which ended in mid-2011, "overinflated the amount of currency that he's created," and "did not get Americans back to work."

Open Letter

That was also the view of Romney advisers Taylor and Kevin Hassett, a senior fellow at the American Enterprise Institute, who both signed an open letter to Bernanke on Nov. 15, 2010, two weeks after the Fed announced $600 billion in asset purchases. The program should be "reconsidered and discontinued," they said.

"Improvements in tax, spending and regulatory policies must take precedence in a national growth program, not further monetary stimulus," they wrote.

By contrast, Mankiw called QE2 "a modestly good idea" in a Nov. 17, 2010, blog post. While the program probably wouldn't have a large impact on the economy, it was "a small but risky step in the right direction," he wrote.

Mankiw, 54, is among a half dozen advisers helping Romney craft his economic proposals. The team is headed by Glenn Hubbard, dean of the Columbia Business School, and it also includes former Minnesota Congressman Vin Weber and former Missouri Senator Jim Talent. Mankiw didn't response to requests for an interview made through the Romney campaign.

Voiced Skepticism

Hubbard has voiced skepticism about quantitative easing, the policy introduced by Bernanke to push down long-term borrowing costs after the short-term rate was cut to zero. "I don't think QE3 would be very effective at all," he said in an Aug. 28 interview at an annual Fed forum in Jackson Hole, Wyoming.

"It would push the yield on 10-year Treasury instruments down a little bit, but that's not what's holding the American economy back," Hubbard said on Bloomberg Television.

Bernanke, in a speech in Jackson Hole, defended the Fed's asset purchases and signaled that a new round may be needed to cut a jobless rate stuck above 8 percent since February 2009, the longest streak in monthly records dating back to 1948.

Treasury Yields

Bernanke, a former Princeton University professor, cited research showing that the Fed's bond purchases "have significantly lowered long-term Treasury yields." He said QE2 lowered yields on 10-year Treasury notes by 40 to 110 basis points.

The 10-year yield was 1.63 percent on Sept. 28, compared with a record-low 1.39 percent on July 24 and down from 4.08 percent in October 2008.

Mankiw has also defended the Fed chairman's record.

"Bernanke has worked tirelessly to shepherd the economy through the worst financial crisis since the Great Depression and yet, for all his efforts, seems vastly underappreciated," he wrote in a July 30, 2011, piece for the New York Times.

Mankiw hasn't said whether he supports the third round of quantitative easing, announced on Sept. 13.

While Romney has criticized Bernanke, he hasn't indicated who might replace him. The former Massachusetts governor, in an Aug. 23 interview with Fox Business Network, said he hasn't considered a "single person" to replace Bernanke. Both Hubbard and Mankiw are "excellent," he said.

Strong Dollar'

"I would want to select someone who was a new member" and "who shared my economic views," Romney said. He would want the next Fed chairman to provide "monetary stability that leads to a strong dollar and confidence that America is not going to go down the road that other nations have gone down, to their peril."

Mankiw has been willing to consider a flexible approach toward inflation. In an April 2009 New York Times opinion piece, he wrote that the Fed could allow inflation to accelerate and reduce real interest rates, or the level of rates minus inflation.

"There are worse things than inflation," he wrote. "A little more inflation may be preferable to rising unemployment or a series of fiscal measures that pile on debt bequeathed to future generations."

'Political Nonstarter'

He adjusted his view in the July 2011 New York Times piece, saying a higher inflation target is "a political nonstarter," and "if Chairman Bernanke ever suggested increasing inflation to, say, 4 percent, he would quickly return to being Professor Bernanke."

In the same piece, Mankiw urged the Fed to set 2 percent annual inflation as its goal. The Fed took that step in January, while also pledging to reduce joblessness as much as possible, to a rate the Fed estimates at between 5.2 percent and 6 percent.

Mankiw, Hubbard and Bernanke have crossed paths professionally, serving as top economic aides to President George W. Bush. Hubbard chaired Bush's Council of Economic Advisers from May 2001 through February 2003.

During that time, Bernanke was appointed a governor at the Fed, under Chairman Alan Greenspan. In May 2003, Mankiw took over as head of the council of economic advisers. Bernanke led the council from June 2005 through January 2006, leaving to become Fed chairman.

Additional Stimulus

Romney's choice to lead the Fed is less likely to support additional stimulus, said Roberto Perli, a former economist for the Fed's division of monetary affairs and a managing director at International Strategy & Investment Group in Washington.

"Under Romney you're going to get someone different from Bernanke, someone who is less inclined to easier policy," Perli said. Still, "Our most likely scenario is that whoever gets the job won't want to tighten policy from day one."

It might take time for Romney to put his stamp on the Fed, said Mark Calabria, director of financial studies at the Cato Institute in Washington and a former senior aide to Republicans on the Senate Banking Committee.

"The truth is that it's Obama's Fed for a while," said Calabria, because the Washington-based Board of Governors has seven seats, and the central bank also has 12 regional presidents from San Francisco to Boston. Bernanke was appointed as Fed chief by Bush in 2006 and re-appointed by President Barack Obama, a Democrat, in 2010.

Fed governor Jerome Powell's seat expires in January of 2014. Though appointed by Obama, Powell is a Republican. Janet Yellen's term as vice chairman ends in October 2014, although her term as a governor lasts until 2024.

Duke's Term

While governor Elizabeth Duke's term has ended, she continues to serve because her successor hasn't been appointed. The other governors' terms come to a close in 2016 or later.

The policy-setting Federal Open Market Committee also draws from 12 Fed bank presidents, who are appointed by the regional banks' boards of directors.

Bernanke hasn't discussed what he might do after his term ends.

"I don't have any decision or any information to give you on my personal plans," he said at a Sept. 13 press conference.

Whoever Romney might choose to succeed him could probably be confident the president wouldn't trample the central bank's independence, former Fed Governor Laurence Meyer said in a Sept. 12 presentation in Washington.

"Who's going to be chairman if Romney is elected?" said Meyer, a senior managing director at Macroeconomic Advisers. "Hubbard, Taylor, Mankiw? You think they'd accept being chairman if Romney was going to shoot his mouth off about monetary policy? If there was a threat to the Fed's independence? Not a chance."