



Yellen Beats Summers as Most Likely Fed Chair in Poll

By: Jeff Kearns & Catarina Saraiva – August 14, 2013

Federal Reserve Vice Chairman Janet Yellen is the most qualified and most likely candidate to run the central bank, according to the majority of private economists in a Bloomberg News survey that showed Lawrence Summers trailing by wide margins in both categories.

Sixty-five percent said Yellen probably will be President Barack Obama's selection to replace Chairman Ben S. Bernanke, while 53 percent said she would do the best job, according to an Aug. 9-13 poll of 63 economists. Twenty-five percent said Summers, Obama's former top economic adviser, would be the nominee, while 10 percent said he would be best. Six percent said former Fed Vice Chairman Donald Kohn is most likely choice.

Janet Yellen, Vice Chair of the U.S. Federal Reserve System, attends a seminar on 'Sovereign Risk, Capital Markets, and Financial Stability: The Interconnections' during the International Monetary Fund (IMF) and the World Bank Annual Meetings in Tokyo. Photographer: Franck Robichon/EPA

The survey results contrast with odds offered by bookmaker Paddy Power Plc, which show Summers is the favorite. Economists, as forecasters of growth and inflation, are focusing more on leadership continuity than on the political connections underpinning Summers's chances, according to Mark Calabria, an economist and the director of financial regulation studies at the Cato Institute in Washington.

"If you're not factoring politics and personality into this at all, then Yellen seems to be a clear winner," said Calabria, a senior aide on the Senate Banking Committee during Bernanke's first confirmation hearing. "There's very little indication that Obama is close with Yellen and there's significant indication that he's not only close but also comfortable with Summers."

Bernanke's second four-year term expires Jan. 31.

Yellen's Background

Yellen, 67, the No. 2 Fed official since 2010, would be the first female leader in the central bank's 100-year history. She was an economics professor at the University of California, Berkeley, before serving as chairman of President Bill Clinton's Council of Economic Advisers and as San Francisco Fed president.

"She has the right combination of resume and philosophy," said Guy Berger, a U.S. economist at Royal Bank of Scotland Group Plc in Stamford, Connecticut. "It's a lot of experience doing monetary policy from a lot of different angles. She's seen it all and done it all. And there's a general trust of her judgment on policy."

Summers, 58, was Treasury secretary under Clinton and was Obama's first director of the National Economic Council, where he helped to draft an \$830 billion stimulus program, the biggest financial regulatory overhaul in half a century and a rescue of the auto industry that helped end an 18-month recession that was the longest since the Great Depression.

Summers's Experience

As president of Harvard University from 2001 to 2006, he drew criticism from women faculty and women's groups after he said in a 2005 speech that "innate" differences between men and women could partially explain the shortage of elite female scientists. He left the Obama administration in 2010, returned to teaching at Harvard and has been a consultant to financial firms including Citigroup Inc.

His experience in the administration and working with Congress would make him the best selection, according to economists including John Lonski, chief economist for Moody's Capital Markets Research Group in New York.

"He is politically savvy," Lonski said. "You definitely need someone who is going to be very effective in the event of a crisis. You want someone who can quickly form a consensus and resolve whatever is at issue."

Obama said July 31 he is considering Yellen, Summers and Kohn. The Fed's 15th chairman would guide the central bank as it unwinds unprecedented stimulus that's pumped the balance sheet to a record \$3.59 trillion and eventually starts raising the main interest rate for the first time since June 2006.

Betting Odds

Paddy Power shows Summers has 1/2 odds, meaning a successful \$2 wager would win a \$1 profit. The Dublin-based bookmaker shows Yellen has 2/1 odds and Kohn's are at 18/1.

In the economist survey, two other candidates were named as likely picks. Two mentioned former Fed Vice Chairman Roger Ferguson, who is now chief executive officer of TIAA-CREF, the New York-based manager of investments for employees of nonprofit institutions from academia to medicine. Four said the job would go to Kohn, who was succeeded by Yellen when he left the Fed in 2010 and now is a senior fellow at the Brookings Institution in Washington.

Two candidates were judged to be best suited for the job by a minority of respondents, even though neither was picked by any economist as the likely nominee. Five economists said Stanley Fischer, the former Bank of Israel governor who was Bernanke's thesis adviser at the Massachusetts Institute of Technology, would do the best job. Three named Timothy F. Geithner, who ended his term as Treasury secretary in January and was president of the Federal Reserve Bank of New York from 2003 to 2009, as the ideal chief.

Continuity

Yellen would be best because her almost two-decade record as a Fed governor, regional bank president and vice chairman shows "good, balanced judgment," which will be critical as the central bank exits its record easing, said Michael Feroli, chief U.S. economist at New York-based JPMorgan Chase & Co.

“She makes an effort to see all of the opposing points of view and balance the strengths and weaknesses of various arguments, and doesn’t just wade in to things with a set opinion that’s not going to be swayed,” said Feroli, a former Fed Board researcher. “You need someone who has seen a couple cycles and appreciates the way the data can jump around.”

Sean Incremona, a senior economist at 4Cast Inc. in New York, said in an interview that Yellen is “too dovish,” or inclined to give more weight to reducing unemployment rather than taming inflation. “For exiting accommodative policy you’re going to want someone who is going to be balanced so we’re not exiting too slow or too fast,” he said.

Job Requirements

Views on monetary policy should be the single most important factor in picking the chairman, according to 60 percent of economists surveyed. Eighteen percent cited experience making monetary policy, 8 percent said experience in financial markets, 6 percent said ability to build consensus and 6 percent said leadership skill in a crisis.

Obama last week said he will nominate a successor “in the fall.” He rejected the notion that Summers is the front-runner and said he has defended his former economic adviser as an act of loyalty.

“Both Larry Summers and Janet Yellen are highly qualified candidates,” the president said at a White House news conference on Aug. 9. “I tend to defend folks who I think have done a good job and don’t deserve attacks.”

Nineteen Democratic senators and one independent -- led by Ohio Democrat Sherrod Brown -- signed a July 26 letter to the White House praising Yellen and urged the president to nominate her as Fed chairman.

Voting Record

Yellen has never dissented from an FOMC action under Bernanke. She was a Fed governor from 1994 to 1997, chairman of President Clinton’s Council of Economic Advisers from 1997 to 1999, and president of the San Francisco Fed from 2004 to 2010. As vice chairman, she has led a subcommittee that helped implement the Fed’s communications strategy.

Kohn, 70, spent almost half of his 40-year Fed career working closely with former Chairman Alan Greenspan, managing responses to the 1987 market crash and the 2001 recession. He was director of the Division of Monetary Affairs from 1987 to 2001 before serving alongside Greenspan and later Bernanke as a governor from 2002 to 2006 and the Vice Chairman until 2010.

Ward McCarthy, chief financial economist at Jefferies Group LLC in New York, said that Summers isn’t the best pick because he hasn’t served at the central bank and “has no experience with monetary policy.”

‘Important Job’

“This is an important job, and as brilliant as he may be I don’t think this is a time for on-the-job training,” McCarthy said. Yellen and Kohn both “are the perfect choices for Fed chairman,” said McCarthy, a former Richmond Fed economist.

“They’re very credible,” he said. “They’re also very familiar with what the Fed is doing now so there’s no learning curve. They’ve committed their lives to monetary policy so there’s an accumulated body of knowledge and understanding and expertise that’s unparalleled.”