



## The Big Show: Battle lines drawn for Fed chair pick

### White House quick to shoot down rumors Yellen is next

By [Christina Mlynski](#) - September 13, 2013

Debate in Washington concerning the next **Federal Reserve** chairman was brought to a new level Friday, amid speculation that the White House would nominate former Treasury Secretary Larry Summers. Summers is rumored to be competing with Federal Reserve vice chairman Janet Yellen for the top spot.

The market reacted to the news after a Japanese newspaper revealed that Obama was in the [final stages of his chairman selection](#), and moving toward naming Summers, according to unnamed sources. According to Bloomberg, Treasurys stopped two days worth of gains on the rumors. Summers is less favored by investors due to his reputation for being the more active policy maker of the two. And it doesn't stop there. A search of performance on HousingWire Treasury Bond Quotes shows [all are trading lower](#). This is the same logic that led 350 economists to recently [sign a letter of support](#) for Yellen.

The President's looming decision on his Fed chairman nomination comes at a critical time when the central bank has outlined a timeframe to begin winding down its bond-buying program, which [could ultimately push or halt the current housing recovery](#). There are worries this quantitative easing artificially compresses rates and that current volatility reflects this. The **Federal Open Market Committee** meets next week to determine if it is time to begin tapering out of QE.

The Federal Reserve did not have a comment on the report, but some analysts do. "We doubt that President Obama will announce his nomination to replace Chairman Bernanke until after the FOMC meeting," said Brian Gardner and Micahel Michaud in a note to the financial services clients of **Keefe, Bruyette & Woods**. "So once the meeting is over, we expect investors will quickly turn from the announcement and the outlook for large scale asset purchases to who will be the next Fed Chairman and what it means for future policy."

However, the White House was quick to shoot down any stories that President Obama has chosen his nomination for the next Fed chair, saying the Japanese press rumors "aren't true."

"The President of the United States has not yet made a decision on the Fed Chair," White House press secretary Amy Brundage wrote.

## **BREAKING DOWN THE CANDIDATES**

Yellen's candidacy benefits from [her institutional memory](#) due to being on the FOMC since 2004.

Industry experts believe the Summers is still Obama's top pick for two reasons, including the fact that he is a known quantity from a policy perspective and because the president has a demonstrated record of not straying far from his established circle of advisors when making personnel decisions.

For instance, it was announced Friday that Jeffrey Zients — a tenured Obama advisor — would take over at the **National Economic Council**, pointed out **Compass Point** policy analyst Isaac Boltansky.

"Ultimately, though, this decision will come down to a political calculation impacted by a multitude of factors including Syria, the budget expiration, health care implementation, the debt ceiling, and other open seats on the Federal Reserve Board," Boltansky stated.

On a similar note, **Cato Institute** director of financial regulation studies Mark Calabria stated that Summers is still the favorite because Obama "likes and trusts him."

"Both Yellen and Summers bring the required economics background and both are also similar in policy outlook," Calabria said.

He added, "What Summers has going for him is his relationship with the President."

On the reverse end, Calabria pointed out that Yellen also brings advantages to the potential nomination as Fed chairman.

"What Yellen has going for her is her gender and her long history of experience with the Fed," the Cato director of financial regulation said.

Similarly, Boltansky said that Yellen would enjoy a far easier path to confirmation than Summers.

"The President only has a limited amount of political capital to spend this fall and he will need to pick and choose how to allocate it," Boltansky stated.

He concluded, "Our sense is that the confluence of impending issues will push the President to pick Yellen or an unknown candidate but note that the situation will remain fluid until there is more clarity on the other issues swirling around D.C. The earliest we expect to hear from the White House on the Federal Reserve nominations is after next week's FOMC meeting."

