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## Why the Fed chairman race matters - Dems hoping for shutdown showdown? - BRT on entitlement reform

By Ben White – August 13<sup>th</sup>, 2013

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**WHY THE FED CHAIRMAN RACE MATTERS** — From a senior Wall Streeter taking issue with the contention from FT columnist Philip Stevens featured in MM yesterday suggesting it does not much matter who gets the Fed chairman job: “It is not a coin flip. And I also disagree with the president; it’s more important than the Supreme Court. At least on the Supreme Court there are nine justices to balance out a single justice. ... But the next Federal Reserve chair will not only be holding the tiller at a time that is extraordinarily FRAUGHT with challenges (how does one reverse course from uncharted waters?), but he or she will have virtually total control over the FOMC. There is little public dissent.

“We already will have several new voters — Raskin and Duke are leaving, Powell’s term is up in January — and if Summers is the pick then Yellen will probably resign. I’m not saying Janet is preferable to Larry (or Roger Ferguson or Donald Kohn), I’m just saying that execution of monetary policy is not on autopilot, Janet and Larry are very different people, and — regrettably — never before in the history of modern central banking has the central bank held such a position of primacy.”

**DEMS HOPING FOR SHUTDOWN SHOWDOWN?** — From a top Dem consultant, reacting to yesterday’s story on risks Wall Street is ignoring in D.C. this fall: “One last risk factor for government dysfunction this fall is that POTUS and some Senate Dems are spoiling for the Repubs to do what comes naturally and push the ‘shutdown’ envelope to the max. If you listen carefully, you’ll hear Obama in effect baiting the GOP into an optically disastrous economic stance one year before the election.”

**FIRST LOOK: BRT ON ENTITLEMENT REFORM** — Business Roundtable sent a letter to House Ways and Means Chairman Dave Camp on “entitlement modernization.” From the letter, signed by AT&T’s Randall Stephenson and Caesar’s Gary Loveman, the co-chairmen of BRT’s health and retirement committee: “We support gradually increasing the benefit age of Medicare to align with Social Security. In addition, more means testing of benefits should be introduced to preserve benefits for low-income elderly Americans. We also support modernizing the Medicare benefit, allowing seniors to choose between competitive plans and the traditional program.” Full letter: <http://bit.ly/17Kb2KC>

**ALTMAN BACKS SUMMERS** — Former deputy Treasury secretary and Wall Street banker Roger Altman: “It may not be 2008 anymore, but serious financial crises are occurring with ever greater frequency. Since the mid-1970s, after a multi-decade period of global market calm, we

have seen repeated currency, banking and debt crises, often bringing crippling economic effects. ... The next Fed chair, therefore, must be experienced in managing crises such as these.

“That brings us to the apparent choice between the two lead candidates. Full disclosure: I have worked with Prof Summers and know Ms Yellen slightly. Both are highly qualified in virtually every respect. But Prof Summers had the key role in the Clinton Treasury during both the Asian financial crisis and the Mexican default. And, later, in the Obama White House during the huge credit crisis in 2009. It would be hard to find an American who is more battle-hardened. That is why he should be the choice.” <http://on.ft.com/19ZM1Ba>

CONSUMERS SHRUG OFF D.C. — WSJ’s Spencer Jakab in “Ahead of the Tape”: “Sequester, shmequester. The automatic federal-spending cuts that took effect this spring were supposed to compound the economic damage to Americans’ pocketbooks caused a few months earlier by the expired payroll-tax holiday and a slew of tax increases. Instead, retail sales passed their prerecession high this spring in real terms and continue to expand. Tuesday’s retail-sales data for July are the fifth since sequestration took effect and are expected to show a fourth consecutive month of gains, excluding inflation.” <http://on.wsj.com/17KdAbs>

JAPAN’S ABE CONSIDRES CORPORATE RATE CUT — Reuters/Tokyo: “Japanese shares rose and the yen eased after a report on Tuesday said Prime Minister Shinzo Abe is considering a corporate tax cut as a way to offset the impact of a planned two-stage increase in the sales tax. Abe is trying to spur growth and pull the world’s third-largest economy out of 15 years of deflation with fiscal and monetary expansionary policies. The Nikkei newspaper quoted government sources as saying Abe has called for a study on lowering the corporate tax rate as a way of easing the burden on Japanese companies and attracting foreign investment.” <http://reut.rs/16cztVB>

MEXICO TO OPEN OIL INDUSTRY — FT’s John Paul Rathbone in Rio de Janeiro and Eduardo Garcia in Mexico City: “President Enrique Peña Nieto has unveiled plans to change Mexico’s constitution and open up the country’s energy sector to foreign investors for the first time in 75 years, a move that could unleash billions of dollars of investment from oil majors. ... His proposal to loosen the grip on Mexican energy of Pemex, the state oil monopoly, and invite in companies such as ExxonMobil and Royal Dutch Shell, is potentially the country’s biggest overhaul since the passage of the North American Free Trade Agreement in 1994.” <http://on.ft.com/13UqYw1>

THIS MORNING ON POLITICO PRO FINANCE —

CONGRESS STARTS LOOKING INTO BITCOIN — POLITICO’s Zachary Warmbrodt: “A Senate committee is pressing federal regulators and law enforcement officials to explain how they plan to oversee Bitcoin and other virtual currencies as the issue gains increasing attention from government officials concerned about what role these new markets will play in the future. The Senate Homeland Security and Government Affairs Committee on Sunday sent letters to several agencies requesting that they disclose their virtual currency policies, how they developed them, how agencies are coordinating and finally what they plan to do going forward ...

“The committee is planting its flag as state and federal officials step up scrutiny of the four-year-old, \$1.2 billion Bitcoin marketplace, where a start-up industry is trying to navigate emerging government concerns related to money laundering, tax evasion and investment products.” <http://politico.pro/14GBoAQ>

GOOD TUESDAY MORNING — Just a reminder, your regular MM host heads out on a two-week break starting on Friday. A guest writer takes the helm next week, and the column goes dark the week of Aug. 26-30 and on Labor Day. Publication will resume with yours truly in the saddle on Sept. 3. Follow [@morningmoneypro](#) for alerts as well as other financial news from POLITICO Pro Financial Services, as well as [@POLITICOPro](#).

DRIVING THE DAY — NFIB survey at 7:30 a.m. expected to rise to 94.5 from 93.5 ... Import prices at 8:30 a.m. expected to rise 0.8 percent ... Retail sales at 8:30 a.m. expected to rise 0.3 percent, 0.4 percent ex-autos

\*\* A message from POWERJobs: New jobs on our radar this week: Financial Professional, Federal at Accenture, Director, Center for Capital Markets Competitiveness at U.S. Chamber of Commerce and Corporate Financial Accountant at Northrop Grumman. Interested? Apply to these jobs and more at [POWERJobs.com](#); finally, a career site made for YOU! \*\*

WHY RAND PAUL IS WRONG ABOUT MILTON FRIEDMAN — AEI's James Pethokoukis: "First, Rand Paul told Bloomberg Businessweek that he would prefer a deceased Milton Friedman in charge of the Federal Reserve 'because then you probably wouldn't have much of a functioning Federal Reserve.' Now as a follow-up, he writes over at National Review Online that it 'is a disservice to Milton Friedman's memory ... to assert that he would be a Krugman-like advocate for quantitative easing.' ... Here is what Friedman said back in 2000 during a Q&A with economist David Laidler: 'Now, the Bank of Japan's argument is, 'Oh well, we've got the interest rate down to zero; what more can we do?' It's very simple. They can buy long-term government securities, and they can keep buying them.'" <http://bit.ly/19ZKIC9>

DRIVING THE FALL: OBAMA ON THE ROAD AGAIN — Per POLITICO's Maggie Haberman: "President Obama's current economic push will take him to upstate New York and Pennsylvania in the coming weeks, for a bus tour associated with his latest message around championing the middle class ahead of the fall budget negotiations with the House GOP. Sources familiar with the plans say Obama will make a string of stops in the upstate New York area, which has remained one of the most economically challenged in the Empire State. ... It's unclear whether Gov. Andrew Cuomo — who is widely seen as having national ambitions — will make an appearance with the president anywhere."

YELLEN 'COULD HAVE DONE MORE' ON BANK REGULATION — WSJ's Damian Paletta: "Janet Yellen, a top contender to lead the Federal Reserve, has evolved — in her own words — from a slightly 'docile' regional bank regulator into a proponent of hard and clear rules ... The change was prompted by her six years as president of the Federal Reserve Bank of San Francisco during a torrid period in financial history. As part of that job, which she held through 2010, Ms. Yellen oversaw scores of banks, some of which failed as the housing market collapsed. ... An examination of her record suggests she pre-emptively warned colleagues about problems in the real-estate market but didn't take aggressive action to address them.

"While some bankers overseen by Ms. Yellen describe her as a determined regulator, critics note that she had a front-row seat for some of the turbulence that sent the economy into a tailspin and could have done more to prevent rampant real-estate speculation.

"'The San Francisco Fed district, which includes Nevada and Arizona, was ground zero for the housing crisis,' said Mark Calabria, director of financial regulation studies at the libertarian Cato Institute. If Ms. Yellen is nominated to be Fed chairman, 'I think she at least has to answer that.'" <http://on.wsj.com/166dMny>

WILL ANYONE BUY BLACKBERRY? — NYT's Michael J. de la Merced and Ian Austen: "BlackBerry Ltd. indicated ... that it was seriously weighing a potential sale of itself. But it is not clear that anyone will want to pay up. Analysts and industry executives said that a sale of the entire smartphone maker was increasingly unlikely, and almost certainly at least a year too late. Investors have speculated that an embattled BlackBerry may prove attractive to a private equity firm. The company's financial state is fairly clean: it has nearly \$3 billion in cash and short-term investments.

"And it carries no debt, suggesting that it can support the financing that a leveraged buyout would require. ... While Silver Lake is part of the duo trying to take Dell Inc. private, a private equity executive suggested that while corporations will always need personal computers, no one needs to buy a BlackBerry device. ... Analysts suggested that while BlackBerry still has a big cash cushion and steady cash flow, growing subscriber losses and other disruptions to the company's business make adding on debt exceptionally risky." <http://nyti.ms/13UiWDD>

HYPER LOOP HYPE — FT's Richard Waters: "A sealed, low-pressure steel tube suspended on columns, shooting capsules with passengers 350 miles from San Francisco to Los Angeles in half an hour. Elon Musk, the electric car and private rocket entrepreneur, on Monday laid out his ambitious plan for a new form of high-speed transport that he said could link some of the world's major cities more efficiently than high-speed rail. ...

"However, while many experts have said the idea of high-speed transport in a sealed tube, called a Hyperloop, was technically feasible, Mr Musk has said he has no plans to build it himself or help fund any development project, leaving the idea without a sponsor. ... In a blog post on Monday, Mr Musk pitched his idea as an alternative to the projected \$70bn high-speed rail link that California voters approved in a ballot in 2008 as a way to connect Los Angeles and San Francisco." <http://on.ft.com/14rgSOS>

ALSO FOR YOUR RADAR —

SPORTS BLINK: WHIFFLE BALL EDITION — Per MM reader Michael Michaud: "Check out this catch made by my teammate Konnor Fleming over the weekend at the Travis Roy Foundation wiffle ball tournament at Little Fenway in Vermont (there's a Little Wrigley too). More importantly, the tournament raised over \$500K for spinal cord research, but this catch was amazing." <http://bit.ly/14reBmO>

NEW WHARTON SCHOLARSHIPS FOR BIZ JURNOS — Per release: "The Wharton School is pleased to announce the new Penn Wharton Public Policy Scholarship which will allow three business journalists whose reporting highlights public policy issues either domestically or internationally to attend the Wharton Seminars for Business Journalists flagship program in Philadelphia this year. Each scholarship covers the cost of tuition, course materials, most group meals, lodging for three nights and airfare within the US (where appropriate)."

AIRLINE MERGER TO JACK UP PRICES? — WSJ's Jack Nicas and Susan Carey: "The looming merger of AMR Corp.'s American Airlines and US Airways Group Inc. ... could lift fares at some of the combined carrier's hub cities, if past mergers are an indication. But reduced competition doesn't always boost ticket prices. Years of consolidation in the U.S. airline industry have shown that one of the critical factors affecting fares is whether enlarged carriers cut flying to align their networks and reduce costs. When they do, higher fares usually follow. ... American and US Airways have said their merger is predicated on expansion and that the larger airline will increase competition." <http://on.wsj.com/17KdLUg>

WHO SHOULD PAY WALL STREET LEGAL FACES — NYT's Andrew Ross Sorkin: "Who should foot the legal bill? That's an increasingly common question — and debate — within legal circles amid the current spate of prominent Wall Street white-collar cases. ... Goldman Sachs paid several millions of dollars to defend, unsuccessfully, its former trader, Fabrice Tourre ... Steven A. Cohen's hedge fund, SAC Capital Advisors, is picking up the tab for some of its traders ensnared in the continuing criminal insider trading investigation into the firm, but not others. Despite firing one of its traders, Mathew Martoma, the fund is now covering the bills for his defense against securities fraud and conspiracy charges. ... On the other hand, SAC did not pay the legal bills for another former employee, Richard S. Lee, who is cooperating with the government

"The implication of who is — or who is not — paying legal fees could have a large effect on the defense's strategies for defendants. But in addition to that, it is increasingly raising questions in the industry. 'It's a more significant issue today than it's ever been,' said Kevin H. Marino, a partner at Marino, Tortorella & Boyle. 'In this era, positions on Wall Street are fraught with all sorts of perils and more individuals are finding themselves ensnared in lawsuits and investigations.' ... There is no absolute rule or law that says a company must pay defense fees for its employees, but Delaware law — where most companies are incorporated — allows legal fees to be paid." <http://nyti.ms/18qOzECy>

GOLDMAN/JPM SUBPOENAED ON METALS — Bloomberg's Silla Brush and Dawn Kopecki: "The top U.S. derivatives regulator subpoenaed Goldman Sachs ... and JPMorgan Chase ... for documents relating to their warehouses for aluminum and other metals. ... The [CFTC] has requested documents dating to the beginning of 2010 about the banks' commodity warehouses .... MillerCoors LLC, Encore Wire Corp. and other metal users have complained about long queues and artificially high prices at the warehouses, particularly for copper and aluminum. ... The subpoena to Goldman was also sent to its Metro International Trade Services LLC unit, which stores aluminum, copper and other metals as part of the London Metal Exchange system. JPMorgan owns Henry Bath & Son Ltd., a founding member of the LME and an operator of warehouses." <http://buswk.co/14rkOiB>