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Minneapolis Fed Gets 'Best Abstract Theorist' in Kocherlakota

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By Vivien Lou Chen

Feb. 16 (Bloomberg) -- Minnesotans like "fresh faces," says Tom Welle, chairman of the Minnesota Bankers Association.

That's what they are getting in Narayana Kocherlakota, the 46-year-old economics professor who delivers his first speech today as president of the Federal Reserve Bank of Minneapolis.

When asked whether he'd heard of the new Fed official, Welle said: "To be honest with you, no. I haven't figured out how to pronounce his name yet." (Nair-ah-yah-nah Koach-er-lah-ko-tah, according to the bank's Web site.)

Unlike most of his 11 counterparts at Fed banks across the nation, the youngest president didn't rise through the ranks of the Federal Reserve System or work in the financial industry. Instead, he made his name in academia in a field called econometrics. Robert E. Lucas Jr., 1995 winner of the Nobel Prize for economics, called Kocherlakota "the best abstract theorist ever to head a Federal Reserve bank."

At the Minneapolis Fed, Kocherlakota will manage a staff of 1,040 at an institution responsible for supervising 83 state-member banks and 563 bank-holding companies. Next year, he will be a voting member of the interest-rate setting Federal Open Market Committee.

Kocherlakota, who became head of the Minneapolis Fed in October and earns \$313,500 a year, is set to speak to about 200 members of the Minnesota Bankers Association at the Hilton Garden Inn in St. Paul at 11:45 a.m. local time. He declined to be interviewed for this article.

Competitive Disadvantage

The bankers he's addressing are concerned they have been left at a competitive disadvantage by the bailouts of large financial firms and are frustrated by efforts to save nonbanks such as American International Group Inc., said Joe Witt, the association's chief executive. AIG is the New York-based insurer that got a \$182.3 billion government bailout, with help from the Fed.

Kocherlakota is on a leave of absence from the University of Minnesota in Minneapolis, where he was chairman of the economics department and has taught since 2005. He is married to Barbara McCutcheon, who holds a doctorate in economics from the University of Chicago.

The Baltimore-born Kocherlakota, who entered Princeton University in New Jersey at the age of 15 and received a doctorate from the University of Chicago at 23, was a staff economist at the Minneapolis Fed from 1996 to 1998 and a consultant to the bank between 1999 and 2009.

By contrast, Fed bank chiefs James Bullard of St. Louis, Charles Evans of Chicago and Boston's Eric Rosengren each took more than 15 years to climb through the ranks of the Fed. William Dudley worked at Goldman Sachs Group Inc. for almost two decades before joining the New York Fed. There, he served as head of the markets group for two years before becoming president.

'Who Is This Guy?'

"It was an unusual choice," Varadarajan Chari, a University of Minnesota professor and consultant to the Minneapolis Fed, said of Kocherlakota's selection. "It doesn't surprise me that people would say, 'Who is this guy?'"

Even so, "We live in times that dictate a somewhat different style and approach to policy making," Chari said.

Kocherlakota was picked from among more than 100 candidates to succeed Gary Stern, who retired last year, said Minneapolis Fed Chairman John Marvin.

The bank's directors wanted someone with the potential to be "another long-term leader" and to further enhance the reputation of a research department that is the Fed system's smallest, he said.

Laissez-Faire

Kocherlakota has written or co-written more than 30 papers. In a 2008 article in the Journal of Economic Theory, he supported "laissez-faire" as an "optimal social contract" where "agents trade in unfettered markets with no government intervention of any kind."

In early 2009, Kocherlakota's name, along with other economists, appeared in an advertisement sponsored by the Cato Institute, a Washington-based research group that promotes free-market policies. The ad challenged President Barack Obama's \$787 billion stimulus program, saying government spending would do nothing to improve the economy.

Still, in a paper for an International Monetary Fund conference in April, he concluded government has a "useful" role to play before asset bubbles form and

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should bail out private borrowers after a collapse like that of U.S. housing prices.

With the Fed helping the economy emerge from the deepest economic slump in the postwar era, unconventional voices like Kocherlakota's may be useful, said Ravi Jagannathan, a professor at Northwestern University in Evanston, Illinois.

New Perspective

"Given the current situation, he's just the type of person you want to bring in: He'll bring in a new perspective," said Jagannathan, who co-wrote a 1996 paper with Kocherlakota that contested the notion that older investors should move away from stocks and into bonds.

Welle of the Minnesota Bankers Association said the state has a history of embracing newcomers, noting that residents elected a former comedian, Al Franken, to the U.S. Senate and a former pro wrestler, Jesse Ventura, as governor.

Kocherlakota faces "a bit of a hurdle to gain a lot of credence quickly because he doesn't have a lot of experience," Welle said. "It's just a matter of whether he can get up to speed quickly enough."

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