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U economics prof to lead local Fed

Department chairman earned Ph.D. at University of Chicago

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Undated courtesy photo of Narayana Kocherlakota, who next week becomes president of the Federal Reserve Bank of Minneapolis. Photo courtesy of the Federal Reserve Bank of Minneapolis.

A University of Minnesota economics professor was named the new head of the Federal Reserve Bank of

Minneapolis on Wednesday, replacing longtime bank president Gary Stern.

Narayana Kocherlakota, 45, a consultant for the Minneapolis Fed for the past decade, will formally take office Oct. 8. His appointment suggests both a continuation of Minneapolis Fed practices and a stronger free-market direction.

"This bank has a strong history of leadership in economic research, and Dr. Kocherlakota will certainly continue that tradition," said Jim Hynes, chairman of the Minneapolis Fed's board of directors. "He is one of the most respected macroeconomists in the field today."

Yet, Kocherlakota's roots with the market-oriented University of Chicago economic school, coupled with some of his recent policy stands, suggest some change as well.

Stern, who is reaching the mandatory retirement age of 65, gained fame during the financial crisis for his unheeded warnings about the "too big to fail" doctrine that allowed banking institutions to grow unchecked into behemoths.

Meanwhile, Kocherlakota was among a group of U.S. economists who publicly condemned President Barack Obama's plan to increase federal spending to fight the recession.

"Lower tax rates and a reduction in the burden of government are the best way of using fiscal policy to boost growth," said the statement, which Kocherlakota signed and was distributed by libertarian think tank the Cato Institute.

Said Hynes, the board chair, "There wasn't any requirement by the board for a specific school of thought, as much as there was to have a broad background."

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And during the search process, Hynes said, "We continued to hear that he was very collaborative, very willing to listen to other people's ideas, with the ability to have a spirited discussion on issues, but always in a very respectful tone."

Larry Jones, a U economics professor, described Kocherlakota as "super-bright" and "very highly regarded in the field."

Kocherlakota was born in Baltimore and entered Princeton University at age 15, graduating four years later with a mathematics degree. He earned his Ph.D. in economics from the University of Chicago — as did his wife, Barbara McCutcheon.

Kocherlakota has taught at Northwestern University, the University of Iowa and Stanford University, in addition to two stints at the University of Minnesota. In 2006, he returned to the U as department chair.

The Minneapolis Fed district, one of 12 nationwide, serves Minnesota, Montana, North Dakota and South Dakota, plus part of northwest Wisconsin and the Upper Peninsula of Michigan. The district is one of the Federal Reserve System's most rural, with only one true urban center.

Kocherlakota declined to talk to reporters Wednesday, but as president of the Minneapolis Fed, his views and voice will be known. Regional Fed presidents are rotating members of the Federal Open Market Committee, the powerful Fed body that sets U. S. monetary policy on interest rates.

Hynes suspects the times will encourage the new Minneapolis Fed president to embrace a more public role.

"I think visibility is going to become more a part of that job than it has been in the past," Hynes said. "Chairman (Ben) Bernanke is also making moves to

improve transparency, that's the direction it's moving. So being a face in the district will become a more important part of that role."

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