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Minneapolis Fed Names New President

By JON HILSENRATH and MARK WHITEHOUSE

The Federal Reserve hired a respected academic with sometimes unconventional ideas to succeed its longest-serving regional bank president.

Narayana Kocherlakota, former chairman of the University of Minnesota economics department, will become president of the Federal Reserve Bank of Minneapolis, succeeding Gary Stern, who retired over the summer after serving as the bank's president for 24 years.

The university's economics department and the Minneapolis Fed have long-running ties, and a successor to Mr. Stern was widely expected to have roots there. The university is part of what is known as the "freshwater" school of economics, named for the free-market departments at the University of Chicago and other programs near the Great Lakes, which tend to take a dim view of the ability of governments to uplift people by intervening in the economy and markets.

Mr. Kocherlakota doesn't fit neatly into the free-market mold. In a paper presented at the International Monetary Fund earlier this year, Mr. Kocherlakota argued that the government was correct to intervene in the aftermath of the housing bubble. The paper also argued that in the case of some bubbles, higher, rather than lower, interest rates might be appropriate because they would encourage saving.

Many of his papers have been highly theoretical works focusing on imperfections in financial markets. "He's probably the most abstract thinker ever to head a Federal Reserve bank," said Robert Lucas, a Nobel Prize-winning economist who is serving as a consultant to the Minneapolis Fed.

Mr. Kocherlakota's colleagues say he is a pragmatic person who is hard to identify fully with any one camp.

"He believes in the freshwater world, but he's not that radical," says Luigi Pistaferri, a frequent co-author with whom Mr. Kocherlakota worked for three years at Stanford University. "He agrees that there are market failures, and his attitude is, 'How do we make the best of a world in which there are such failures?' "

The Federal Reserve consists of a board in Washington and 12 regional bank presidents. For interest-rate decisions, five of the 12 presidents each year get a vote on a rotating basis. The Minneapolis Fed isn't due for a vote until 2011.

Meantime, Fed officials on Thursday sought to tamp down market expectations that it could be moving quickly toward an increase in interest rates. In comments at the Cato Institute on the Fed's exit strategy, Fed vice chairman Donald Kohn emphasized that the economy remains burdened by large amounts of unused capacity and that higher interest rates won't be necessary for "an extended period."

The timing and aggressiveness of rate increases, he said, depended on "how the economy seems to be recovering and the outlook for inflation."

He added, however, that the Fed would be pre-emptive. "We must begin to withdraw accommodation well before aggregate spending threatens to press against potential supply, and well before inflation as well as inflation expectations rise above levels consistent with price stability," he said.

Dennis Lockhart, president of the Federal Reserve Bank of Atlanta, added that it was too early to begin tightening Fed policy. "I don't think we are served by declaring prematurely that we're in the clear," he said.

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