Fed Chief Yellen Seeks Interest-Rate Consensus

Chairwoman's Actions in Her First Six Months Confound View of Her as Strong Advocate of Easy Money

By Jon Hilsenrath
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Fed Chairwoman Janet Yellen at a board meeting this month. With interest-rate decisions looming, Ms. Yellen is hearing out other Fed officials. Associated Press

As vice chairwoman of the Federal Reserve, Janet Yellen was an unabashed advocate of easy money who pressed colleagues to embrace her view.

As chairwoman she has taken a much different approach, becoming a restrained consensus seeker modeled after her predecessor, Ben Bernanke.
The switch has implications for how the Fed will navigate tough decisions in the months ahead. Many expected Ms. Yellen to steer the central bank toward extending its long period of superlow interest rates. But she has shown herself willing to move toward exiting from that policy as officials found the economy to be on stronger footing.

Ms. Yellen has spent much of this year winding down a bond-buying program meant to hold down long-term interest rates and planning for an eventual increase in the short-term rate the Fed controls, a "tapering" begun before her tenure started. With the bond program set to end next month, officials are turning to sensitive discussions about when to raise the short-term rate—and how to signal the move.

Her next test is this week. Meeting on Tuesday and Wednesday, Fed officials will discuss whether to shift their guidance on the short-term rate. They also are seeking to complete a new plan for managing the mechanics of future rate changes.

Ms. Yellen's approach to these issues turns out to be similar to the one investors saw from Mr. Bernanke after the 2008 financial crisis. "She learned a lot from him about consensus-building on the committee and has followed his style," James Bullard, president of the Federal Reserve Bank of St. Louis, said in an interview in late August.

Much is at stake. The economy has been steadily improving, and many asset markets thriving, in the low-rate era. Issuance of junk bonds, subprime auto loans and low-rated bank loans has soared. If the central bank moves too soon to raise interest rates, it could choke off the recovery. But if it waits too long, it risks encouraging too much inflation or otherwise becoming a source of financial instability. Some of the Fed's strongest critics say it has already waited too long.

Ms. Yellen has been gauging colleagues' views and seeking common ground among them rather than strong-arming them to agree with her, according to interviews with nearly 20 officials who have worked closely with her.

A Wall Street Journal analysis of her calendar shows that in her first six months as Fed boss she spent more than 55 hours on phone calls and private meetings with Fed governors and the 12 regional-bank presidents. That contrasts with eight hours spent with private-sector bankers.

How Does Janet Yellen Spend Her Time?

![Inside Janet Yellen's Calendar](image)

Before policy meetings, Ms. Yellen has blocked out large chunks of time for one-on-one calls with presidents of the regional Fed banks, according to the calendar records, which the Journal obtained in an open-records request.
In meetings, according to participants, Ms. Yellen has been careful to acknowledge everyone’s view after the go-rounds in which officials comment on the economy and policy options. “I feel very listened-to by Janet,” Richard Fisher, president of the Federal Reserve Bank of Dallas, said in an interview last month.

Mr. Fisher, who is considered a policy hawk resistant to easy-money programs, had a ritual during the Bernanke years of surveying corporate executives before meetings and sharing his findings in phone calls with the Fed chief. He has continued the practice with Ms. Yellen.

Every Fed leader brings a particular style that shapes how decisions are made. Paul Volcker clashed with Reagan-nominated Fed governors in the 1980s and once threatened to resign if he didn't get his way on a rate decision. Under Alan Greenspan in the 1990s, Fed officials tended to defer to the leader's view.

Mr. Bernanke sought to make the Fed less dominated by its chief. The approach sometimes slowed decision making or led to uncomfortable compromises. Policy hawks pushed back against his easy-money approach, leaving him to weigh how much internal dissent he could bear as he sought untested programs to spur growth.

Ms. Yellen sometimes served Mr. Bernanke as a counterweight to policy hawks when she was vice chairwoman. Now she has a different role, including a responsibility to get the group to move to unified decisions.

Many Fed officials expect to start raising short-term interest rates in mid-2015. After a hiring pickup and months of surprisingly large drops in the unemployment rate early in the year, Ms. Yellen started signaling in July that a rate increase could come sooner if the job market continued to improve faster than expected.

As she did so, and as the labor-market improved, officials have been surprised that investors’ rate-increase expectations didn’t adjust to the improving economy.

Yields on 10-year Treasury bonds have receded since Ms. Yellen took office, and futures contracts that are linked to rate-hike expectations haven't shifted much.

This month, some of the reason to move on rates sooner than expected has diminished. The most recent hiring reports showed job gains have slowed.

Still, some officials, including Mr. Fisher and Mr. Bullard, are warning they might support raising rates in next year’s first quarter. Despite being fans of Ms. Yellen’s style, they and other Fed officials could challenge her in the months ahead if their views diverge on the economic outlook or the policy path she tries to chart.

Mr. Bernanke was frequently tested with hard and divisive choices in uncertain times. For Ms. Yellen, “that moment hasn’t come,” said Jon Faust, a Johns Hopkins University economics professor who served as an economic adviser to the Fed from 2012 until June.

In her first four policy meetings, Ms. Yellen has faced two dissents—votes by a Fed governor or regional-bank president against a policy decision. That represents a period of relative calm. Mr. Bernanke faced dissents in 16 straight meetings in 2012 and 2013.
The first clues about Ms. Yellen's approach emerged in the weeks after she took office in early February, as she battled an illness while preparing for a March 18-19 policy meeting that would be her first as Fed chief.

She got sick after returning from a trip to Australia for meetings with finance officials, said people who worked with her. Even so, she spent hours in consultations with other Fed officials to pave the way for agreement on a communications issue. Two weeks before the meeting, she gathered with Washington-based Fed governors and some staffers in a wood-paneled Fed library across from the main boardroom, having blocked out three hours for a video conference call with regional-bank presidents.

Ms. Yellen began with a brief introduction saying the Fed needed to start thinking about changing its interest-rate guidance, according to attendees.

For months, it had been saying it wouldn't raise the federal-funds rate as long as the national unemployment rate was above 6.5%. With the jobless rate falling faster than expected, several officials wanted to alter this guidance. Some felt the assurances were no longer appropriate; others wanted to make them even stronger.

Ms. Yellen listened quietly as officials spent hours offering views on how to proceed, according to people in attendance. Agreement emerged that the Fed needed to shift away from its focus on the unemployment rate and move toward a broader to evaluate the job market.

Ms. Yellen summed up briefly at the end without staking out a position. She said Fed staff in Washington would begin working on formulations that took different views into account.

"She did a good thing in calling that early meeting and having the whole group discuss that," Mr. Bullard said. "It gave everybody a chance to weigh in."

As March 18 approached, she circled back to all of the presidents, blocking out more than five hours for individual calls with them before the meeting. Stanley Fischer, the former Bank of Israel governor who was awaiting Senate confirmation as Fed vice chairman, was scheduled for three hours of meetings with Ms. Yellen in February and March.

On a Sunday less than 48 hours before the meeting, she warned her staff she had a high fever and asked them to make precautions in case she wasn't well enough to attend. They nervously waited, making tentative plans for New York Fed President William Dudley to run the meeting and the news conference afterward, said several people familiar with the planning. Mr. Dudley is vice chairman of the Fed's rate-setting panel, called the Federal Open Market Committee.

Ms. Yellen's temperature receded. At the meeting, the Fed changed its low-rate assurance, dropping its emphasis on the unemployment rate. It said it would look at a broad array of labor-market indicators.

To make sure the public didn't take this as a sign of an imminent rate increase, officials added that they expected the fed-funds rate to stay low for a "considerable time" after the bond-buying program ended later in the year.
Ms. Yellen, who prides herself on preparation—she logged 184 hours in staff meetings in her first six months—was sometimes off balance at the news conference that followed the March meeting. Asked what was meant by "considerable time," she offered more specificity than she intended, suggesting it could mean six months.

Still, she survived her first test. Stocks continued their march higher, and interest rates remained stable.

### Tracking the Slack

A range of employment indicators watched by Fed Chairwoman Janet Yellen have improved this year, but remain a distance from levels seen in five years before the financial crisis.

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2003-07 average</th>
<th>Dec. 2013</th>
<th>Most recent</th>
<th>Difference from pre-crisis norms</th>
<th>Change since December</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unemployment rate</td>
<td>5.2%</td>
<td>6.7%</td>
<td>6.1%</td>
<td>+0.9 ppt. points</td>
<td>−0.6 ppt. points</td>
</tr>
<tr>
<td>U6 unemployment rate¹</td>
<td>9.0%</td>
<td>13.1%</td>
<td>12.0%</td>
<td>+3.0 ppt. points</td>
<td>−1.1 ppt. points</td>
</tr>
<tr>
<td>Annual worker wage growth</td>
<td>2.9%</td>
<td>19%</td>
<td>1.8%</td>
<td>−1.1 ppt. points</td>
<td>−0.1 ppt. points</td>
</tr>
<tr>
<td>Long-term unemployed, millions</td>
<td>1.54</td>
<td>3.88</td>
<td>2.96</td>
<td>+92.2%</td>
<td>−23.7%</td>
</tr>
<tr>
<td>Part-time seeking full-time jobs, millions</td>
<td>4.44</td>
<td>7.77</td>
<td>7.28</td>
<td>+64.0%</td>
<td>−6.3%</td>
</tr>
<tr>
<td>Average monthly job openings, millions</td>
<td>3.96</td>
<td>3.91</td>
<td>4.57</td>
<td>+17.9%</td>
<td>+19.4%</td>
</tr>
<tr>
<td>People quitting jobs, monthly avg., millions</td>
<td>2.75</td>
<td>2.42</td>
<td>2.52</td>
<td>−8.4%</td>
<td>+4.1%</td>
</tr>
</tbody>
</table>

¹Total unemployed, plus all persons marginally attached to the labor force, plus total employed part time for economic reasons. Based on employment cost index report.

Sources: Federal Reserve Board; Bureau of Labor Statistics; The Wall Street Journal

The labor market’s surprising pickup persisted. The Fed had projected in December that the unemployment rate would settle between 6.3% and 6.6% at the end of 2014. But the rate fell to 6.3% in April, and then to 6.1% in June.

Broader unemployment measures improved even more. One called "U6," which includes part-time workers who would like to be full time and people who want jobs but haven’t looked recently, fell to 12.1% in June from 14.2% a year earlier.

Ms. Yellen’s long-standing reputation as an easy-money advocate could become a problem if investors doubted her willingness to move to combat a budding inflation problem or a possible financial bubble. Some officials who have worked with her say that reputation isn’t accurate. "It is misleading to try to put a label on her," said Elizabeth Duke, a former Fed governor appointed by George W. Bush.

Ms. Duke said she often found Ms. Yellen rechecking her assumptions. "She pays attention to the data."

As the job market improved this year, Ms. Yellen began dropping hints that a boost in the fed-funds rate could come sooner than expected.

"If the economy proves to be stronger than anticipated by the Committee," she told lawmakers in July, "resulting in a more rapid convergence of employment and inflation to the FOMC’s objectives, then increases in the federal-funds rate target are likely to occur sooner and to be more rapid than currently envisaged."

She stressed that a point month later at a conference in Jackson Hole, Wyo.
Ms. Yellen spent much of the spring and summer formulating a plan to manage the mechanics of future rate increases. These mechanics have become more complicated because of all the money the central bank has pumped into the financial system since the financial crisis.

Traditionally, the Fed has managed its benchmark rate by moving relatively small amounts of money into and out of the banking system. A new plan, which the Fed could unveil this week, emphasizes two new interest rates.

One is a rate paid to banks on money they keep on reserve at the Fed. The other is a rate the Fed will pay money-market funds in trades conducted by the New York Federal Reserve Bank. Shifting these two rates is the planned new mechanism for changing the fed-funds rate.

The apparent recent lessening of labor-market progress has eased pressure on the Fed to move relatively quickly toward a higher fed-funds rate. But some officials are pushing, once again, for the Fed to shift its guidance to the public on that rate.

Because of the uncertainty on how the job market will play out in the months ahead, more Fed officials want to stop offering assurances the Fed will wait a "considerable time" to move on rates.

Ms. Yellen, in her preparations for Tuesday's meeting, is looking for an approach on which her colleagues can agree.

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