Summers Quit Fed Quest After Democrats Spurned Obama Favorite

Lawrence Summers’ withdrawal as a candidate for Federal Reserve chairman came after an unprecedented campaign to stop a Fed nominee even before he was announced, spearheaded by Democratic senators who took on a president of their own party.

The decision by Summers, the former Treasury secretary and economic adviser to President Barack Obama, came as liberal and moderate Democrats on the Senate Banking Committee began publicly and privately signaling their concerns about Summers to the White House.

Several Democratic senators, including Jeff Merkley of Oregon and Sherrod Brown of Ohio, mounted a sustained lobbying campaign, pressing colleagues in their own party to oppose Summers on the grounds that he was too lax on financial regulation. They pressed forward as the White House was focused on building support for a military strike in Syria.

“Any possible confirmation process for me would be acrimonious and would not serve the interests of the Federal Reserve, the administration, or ultimately, the interests of the nation’s ongoing recovery.” Summers wrote in a letter yesterday to Obama.

People close to the process said Summers was Obama’s top pick all along, even though White House officials late last week insisted the president had yet to make a decision.

Summers, 58, and Fed vice chairman Janet Yellen, 67, were reported to be the leading candidates. Obama also has said he interviewed Donald Kohn, 70, a former Fed vice chairman. Former Treasury Secretary Timothy Geithner isn’t interested in the job, even after Summers’ withdrawal, said a person familiar with Geithner’s thinking.

Markets React

The dollar weakened against all its major peers while Asian stocks climbed with U.S. index and Treasury futures after Summers’ withdrawal.

The Bloomberg U.S. Dollar Index dropped 0.5 percent at 10:41 a.m. in Hong Kong and the greenback slumped 1 percent against the Australian dollar. Standard & Poor's 500 Index futures jumped 1 percent and the MSCI Asia Pacific Excluding Japan Index gained 1.2 percent with Japanese markets closed. Ten-year Treasury futures rose 0.8 percent.

Democratic opposition to Summers’ possible nomination had been building, spurred in part by the efforts of Merkley and Brown, who placed calls to liberal advocacy groups and used weekly caucus lunches to lobby fellow lawmakers to oppose Summers.

Tester’s Announcement

On Sept. 13, Montana Senator Jon Tester, a moderate Democrat, announced he would oppose Summers, bringing the number of “no” votes on the Senate Banking Committee to three, including Merkley and Brown.

The pitch from Merkley and Brown to fellow Democrats was this, according to Senate Democratic aides: if you think you’re going to vote against Summers, speak up now, because it’s less embarrassing to Obama to stop Summers before he’s nominated than after a messy confirmation fight.

Senator Elizabeth Warren, a Massachusetts Democrat and critic of Wall Street, also was involved. She informed the White House last week she would oppose Summers, according to a person familiar with the matter.

Her vote would have meant at least four Democrats on the banking committee were opposed to Summers, meaning the White
House would have had to rely on several Republican votes to get him out of the 22-member committee.

**Yellen Letter**

The Democratic effort spilled into the open when a senator off-handedly acknowledged in late July the existence of a letter of support for Yellen. That letter, drafted and circulated by Brown, was signed by 20 senators.

The letter touched a nerve in the White House, and with Obama himself. He defended Summers days later in a closed-door meeting with Democrats on Capitol Hill, while mentioning that Kohn also was under consideration.

As Democratic opposition grew, Summers’ supporters say the White House didn’t effectively push back. Summers was left vulnerable to what some called a “perfect storm” of events: the delay in his formal nomination, the debate raging over Syria, and the upcoming budget fights with Congress, according to a person familiar with the matter.

In late August, the White House sanctioned former administration officials Stephanie Cutter and Jim Messina to work to counter anti-Summers reporting without ever marshaling current administration officials, many of whom, including most of the economic team, supported Summers, according to people familiar with the situation.

**Syria Distraction**

A tight circle of the president’s advisers, convened to weigh various Fed candidates, stopped meeting once Syria dominated the agenda and Obama’s attention turned to the divisive debate of whether to launch a military strike in response to the Aug. 21 chemical weapon attack that killed more than 1,400 people.

While Obama’s aides insisted that the Fed chairman’s confirmation process wouldn’t get wrapped up in the budget fights set to start in September, Summers was emerging as collateral damage, the person familiar with the situation said.

Obama, in a statement yesterday, called Summers “a critical member of my team as we faced down the worst economic crisis since the Great Depression.” He touted Summers’ “expertise, wisdom and leadership” for helping guide the crisis response and nascent recovery.

**Rose Interview**

Since June, when Obama in an interview with Charlie Rose indicated he wouldn’t appoint Ben S. Bernanke to another term, intrigue over whether the president would pick Summers or Yellen turned into a political process that Fed watchers called unprecedented.

The turmoil comes at a particularly fragile time for the central bank as it considers whether to begin to reduce the unprecedented bond purchases that have fueled a four-year market rally. Bernanke’s term ends Jan. 31.

As signs over the past few months continued to point to Summers as the leading candidate, 40 percent of investors, analysts and traders who are Bloomberg subscribers saw Summers getting the job, according to a Bloomberg Global Poll.

Still, Yellen was viewed more favorably among investors, with 60 percent of respondents holding a positive view, compared with 37 percent for Summers. Thirty-five percent had a negative view of Summers, compared with 15 percent for Yellen.

**Clinton Record**

Summers was pegged by his opponents as a deregulator for his support of loosened rules on the financial industry during President Bill Clinton’s administration.

In 1998 Summers, then-Fed Chairman Alan Greenspan and Treasury Secretary Robert Rubin blocked efforts by Brooksley Born, then-chairman of the Commodity Futures Trading Commission, to regulate the derivatives market. It later expanded to include the toxic instruments that led to the 2008 financial market crisis.

Summers also sought repeal of the Glass-Steagall Act, the Depression-era law separating commercial and investment banking.

“If you nominate someone who is a life-committed deregulator to be in a regulatory position, and if you believe regulation is...
necessary to prevent fraud, abuse, manipulation and so forth, then there’s a lot of questions to be asked: Why is this person appropriate?” Merkley said in a July interview.

Even those that said they would support Summers voiced concern in interviews about the intraparty fight a Summers nomination would cause in the weeks ahead. Democrats, which hold a 54-46 majority in the Senate, face negotiations on the budget and an increase in the debt ceiling.

**Unwanted Fight**

“In light of everything he needs from Democrats on the Hill in the weeks and months to come, the last thing he can afford is to antagonize them over the Summers nomination,” Jim Manley, a former senior aide to Senate Majority Leader Harry Reid, said of Obama in a telephone interview.

A tough confirmation fight that split Democrats was an unwelcome possibility, three aides familiar with the discussions said. That message was conveyed to the White House by the camp opposed to Summers, according to one of the Senate aides.

Some Republicans were approached by the White House as late as last week as the administration tried to get a better sense of whether Summers could win the required support, one of the aides said. While the entreaties were not rejected, the potential price of the votes was considered too steep, as was the reliability of the Republican lawmakers.

“If they really thought they could pick up the Republican votes necessary to provide a comfortable margin they still can’t figure out what’s going on up on the Hill,” said Manley.

By September 13, what was becoming apparent to the White House earlier in the week would be hammered home. Tester, the Montana Democrat, released a statement announcing his opposition to Summers.

Two days later, Summers’ letter arrived, on the five year anniversary of the peak of the financial collapse that ushered in the economic crisis Summers fought side-by-side with Obama to contain.

To contact the reporters on this story: Julianna Goldman in Washington at jgoldman6@bloomberg.net; Cheyenne Hopkins in Washington at chopkins19@bloomberg.net; Phil Mattingly in Washington at pmattingly@bloomberg.net

To contact the editor responsible for this story: Steven Komarow at skomarow1@bloomberg.net

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