Yellen Gets Fed Nomination With Bank at Turning Point

By Jon Hilsenrath
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CENTER STAGE: Janet Yellen would become the first female Fed chief if confirmed as President Obama's pick to succeed Chairman Ben Bernanke. Pablo Martinez Monsivais/Associated Press

Janet Yellen, if confirmed to lead the Federal Reserve, faces the difficult task of defining when the central bank will step back from the expansive monetary programs employed over the past six years to salve the crisis-racked economy.

President Barack Obama introduced Ms. Yellen, beaming at his side, as his choice to become chairwoman of the central bank when Ben Bernanke's term ends in January. Her nomination is subject to Senate confirmation.

After being formally nominated by President Obama, Janet Yellen spoke about taking on the role of chairwoman of the Federal Reserve. Photo: AP

"A lot of people aren't necessarily sure what the Federal Reserve does," Mr. Obama said. But thanks to the Fed under Mr. Bernanke, he added, "more families are able to afford their own home, more small businesses are able to get loans to expand and hire workers, more folks can pay their mortgages and their car loans."

Wealth of Policy Experience

- **Personal:** Born Aug. 13, 1946, in Brooklyn, N.Y.; married to George Akerlof, winner of the 2001 Nobel Prize in economics; one son, Robert Akerlof, an economist at the University of Warwick in the U.K.
- **Education:** Graduated summa cum laude from Brown University with a degree in economics in 1967 and earned a Ph.D. in economics from Yale University in 1971
- **Current affiliations:** Vice chairwoman, Federal Reserve Board of Governors; professor emeritus at University of California, Berkeley
Milestones:

- **1971-76** Served as assistant professor in Harvard University's economics department
- **1977-78** Served as economist for the Federal Reserve Board of Governors, division of international finance
- **1978-80** Served as lecturer at the London School of Economics and Political Science
- **1980** Joined the faculty at UC Berkeley
- **1994-97** Served as Federal Reserve governor
- **1997-99** Served as chairwoman of the White House Council of Economic Advisers
- **1997-99** Served as chairwoman of the Economic Policy Committee of the Organization for Economic Cooperation and Development
- **2004-10** Served as president of the Federal Reserve Bank of San Francisco
- **Oct. 4, 2010-present** Fed vice chairwoman under Chairman Ben Bernanke

The selection of the 67-year-old Ms. Yellen was historic on many levels. In one stroke, Ms. Yellen has a chance to become the first woman to run the Fed since its founding in 1913, the most powerful economic policy maker on the globe and one of the most influential women in U.S. history.

It also puts her in a position to place her stamp on one of the most inscrutable but influential institutions in the U.S. government. The Fed was established after a financial crisis in the early 20th century to provide emergency lending to banks during economic panics. Its role and powers have grown since, to regulating banks, stabilizing inflation and softening the blows of a volatile economy on the nation's workforce. According to a law passed in 1977, the Fed is assigned to achieve what is known as a "dual mandate" of maximum employment and stable prices.

Tested by the 2008 financial crisis, Mr. Bernanke pushed the Fed's boundaries in his efforts to stabilize an ailing economy. But the wisdom and effectiveness of his signature programs remain subjects of intense debate inside the Fed, on Wall Street trading floors, in the boardrooms of foreign central banks and in the halls of Congress. Most hotly debated is a bond-buying program often called quantitative easing, or QE, which has vastly expanded the Fed's holdings of securities.

President Obama explains why he has nominated Janet Yellen to be the next head of the Federal Reserve. Photo: AP

Ms. Yellen now gets to put her own postscript on programs she helped to write. Her big decisions in the next four years will involve deciding when to pull back from these efforts.

In brief comments after Mr. Obama introduced her, she suggested that she is in no hurry to pull back now. "More needs to be done to strengthen the recovery," she said in a statement. "Too many Americans still can't find a job and worry how they'll pay their bills and provide for their family."

Whether the Fed can do much to help them is a central point of contention that she will need to manage with 18 other policy makers who take part in the Fed's decisions.

The Fed has a simple but extraordinarily powerful tool that it uses to guide the economy: It can print money and use that money to accumulate securities. Dollar bills have the Fed's name emblazoned across their top, and in the modern digital age the Fed can deposit billions in the blink of an eye into the accounts of banks, which then filter into the economy.

In normal times the Fed uses this power to manage the money supply to guide very short-term interest rates—rates that banks charge each other on overnight loans—and then lets the private sector do the rest of the work in driving credit to or away from businesses and households. Lowering the rate tends to encourage borrowing, which spurs near-term spending and investment;
raising the rate tends to do the opposite. If it prints too much money, it can cheapen a dollar's value and cause inflation.

View Graphics

During the financial crisis, the Fed pushed short-term rates to near zero in an effort to encourage economic activity even as businesses, banks and households pulled back. With Ms. Yellen's strong support, the Fed has promised to keep rates low until the unemployment rate, now 7.3%, gets below 6.5%. The Fed went a step further, using its money-printing ability to buy trillions of dollars' worth of long-term Treasury and mortgage securities in an effort to push longer-term rates even lower.

Since 2006, the Fed's securities holdings have expanded from $750 billion to $3.5 trillion. Much of that increase has happened since the financial crisis ended in 2009, but some question whether it was worth the risk given the mixed results in the economy. The economy has been stuck at a meager growth rate around 2% through four years of recovery, though unemployment has fallen notably from 10% at its worst. Inflation, meantime, is running below the Fed's 2% goal, which Ms. Yellen had a role in establishing. Though the Fed has printed a great deal of money, risk-averse banks aren't lending much of it and debt-constrained consumers aren't borrowing much.

Photos: Milestones for Women in Government

Sandra Day O'Connor is sworn in before the Senate Judiciary committee during confirmation hearings in Washington in 1981. David Hume Kennerly/Getty Images

The first challenge on Ms. Yellen's agenda, if confirmed, will be steering debate within the Fed about whether to start pulling back the $85 billion-a-month bond-buying program that many officials want to wind down as the unemployment rate falls.

Fed officials decided at their September meeting against trimming the bond purchases. For many of the officials, that was a "relatively close call," according to minutes of the meeting released Wednesday.
Later, she will need to lead discussions about when to begin raising short-term interest rates.

Ms. Yellen suggested Wednesday that she brings to the job an expansive view of the Fed's responsibilities.

"We can help ensure that everyone has the opportunity to work hard and build a better life," she said Wednesday at the White House. "We can ensure that inflation remains in check and doesn't undermine the benefits of a growing economy. We can and must safeguard the financial system."

But some officials and private economists think the Fed needs to take a narrower view of what it can achieve with easy-money policies.

Janet Yellen, shown in 2011, would put her postscript on Fed policy. Bloomberg

In a statement about their goals that Ms. Yellen helped to craft in 2012, Fed officials agreed that in the long run their policies dictate the level of inflation. Most agree they can shape growth and unemployment in the short run by nudging people's borrowing plans, but the Fed said in this statement that other factors determine the economy's long-run growth rate and job gains. These factors include influences such as productivity, population growth or regulatory policies.

"The limits of monetary policy are pretty clear," said Marvin Goodfriend, a professor at Carnegie Mellon University's Tepper School of Business. "Monetary policy essentially over the medium- to longer-term only affects inflation."

The Fed's own research suggests the bond-buying program has had modest benefits. But Ms. Yellen has argued the costs of running these programs are small. Inflation hasn't taken off, as many critics of the programs predicted would happen. The dollar has been steady compared with other currencies even as the Fed has printed trillions more, despite warnings its value would collapse. However, some officials became worried earlier this year that the Fed might be stirring new financial bubbles.

"There is just a limit to what the Fed can do," said Martin Feldstein, a Harvard University professor who has known Ms. Yellen since they were co-teachers in a class on macroeconomics at Harvard in the early 1970s.

He said the Fed needs to start pulling back its bond-buying programs. Mr. Feldstein argued that a better formula for reviving the economy would be a combination of long-run deficit cuts through overhauled government benefits programs combined with short-run fiscal stimulus. Those are policies the Fed doesn't control.

"I do not expect bold policy initiatives from a Yellen Fed in the near term," said Christina Romer, a friend of Ms. Yellen's and former head of Mr. Obama's Council of Economic Advisers. "She has been a key architect of the current policies and so I would expect a great deal of continuity."

However Ms. Romer says the critics of the Fed's easy-money policies have it wrong. The Fed should have pushed the boundaries of easy money even more aggressively to get the economy back onto its precrisis footing quicker, she said. A more aggressive Fed might have jolted the expectations of households and businesses toward better times ahead and encouraged more growth in the near term. "It would take more than an incremental change in Fed policy to really change expectations and do a lot to boost growth," she said.

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