

Janet Yellen as Central Banker

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Pre-Federal Reserve Career

- B.A. Brown University (Providence, RI) 1967
- Ph.D. Yale University (New Haven, CT) 1971
- Assistant Professor, Harvard University (Cambridge, MA) 1971-1977
- Research Economist, Board of Governors of the Federal Reserve (Washington, DC) 1977-1978
- Lecturer, London School of Economics (London, England) 1978-1980
- Professor, U.C. Berkeley (CA) 1980-1994, 1999-2004

Government Career

- Governor of the Federal Reserve 1994-1997
- Chair of the President's Council of Economic Advisors 1997-1999
- President of the Federal Reserve Bank of San Francisco 2004-2010
- Vice Chair of the Board of Governors of the Federal Reserve 2010-Present

In Government Before 2008

- How she got there and what she was supposed to do
- What she did at the Federal Reserve
- What she did at the Council of Economic Advisors
- What she did at the pre-crisis Federal Reserve Bank of San Francisco

What American Economists Thought Before 2008

- The American macroeconomic consensus before the 1970s
 - Both left and right--Arthur Okun and Arthur Burns
 - Recessions as falls below potential output
 - Inflation a matter of “incomes policy” and politics
 - Inflation not very costly
- The American macroeconomic consensus after the 1970s
 - Cycles as fluctuations around potential output
 - Inflation as very costly
 - Expectations of inflation as very fragile and hard to anchor
 - Finance not very relevant--the Federal Reserve can build firewalls

What She Thought Before 2008

- Focus on financial markets
- Focus on labor markets: skill upgrading in a high-pressure economy
- Thus a supercharged belief in recessions as not just falls below but changers of the growth of potential
- Balanced by, even pre-Volcker, belief in the power of monetary policy to alter inflation expectations and inertia
- Believer in continuity
 - Hence dispute with Greenspan over 1995-1997
- Worries in 2004-2007 about the forthcoming collapse of the housing bubble
 - Again, dispute with Greenspan

What She Thinks since 2008

- Hard to tell: a good deputy; close-mouthed
- Disciplined reporter of the current FOMC near-consensus
- Consensus builder
- That said, closer to being right than other senior monetary policymakers
 - Fear of bubble
 - Grasped magnitude of financial crisis
 - Understood likelihood of a jobless recovery
 - Optimistic about the effects of QE policies at the ZLB
 - After May-June 2013, a point that seems proven
- Reality-based

What Will Her Committee Be?

- She is not going to override them; she will guide and educate them
- Nineteen participants--twelve Reserve Bank presidents, seven Governors
- Twelve members--seven Governors, President of the FRBNY, four other Reserve Bank presidents

What Will Her Committee Be? II

- Herself
- William Dudley, President of the Federal Reserve Bank of New York
- Four other voting Reserve Bank Presidents
- Governors:
 - Jeremy Stein
 - Daniel Tarullo
 - Sarah Bloom Raskin (headed for Treasury)
 - Jerome Powell (term expires January 2014)
- That means, potentially, four Governor vacancies as of February 2014
- Possible line-up: Yellen-Dudley vs. Stein, with Tarullo and four other Reserve Bank Presidents holding the balance

The Congressional Context

- The mechanics of the Senate
- The policy temper of the Republican Right
- The policy temper of the Republican Center
- The partisan attachment of the Republican Center
- The partisan attachment of the Democratic coalition

The Economic Context

- The unemployment rate and the employment-to-population ratio in the United States
- The anchoring of inflation expectations in the United States
- Interest rates and “unwinding”
- The U.S. has hegemon
 - The emerging markets context
 - The broader North Atlantic context

Conclusion

- Market consensus is that Yellen will be one step to the left of Bernanke on both rate path and asset accumulation issues
- Note that Bernanke-the-Chair was three steps to the right of where Bernanke-the-Professor had been: becoming Chair changes you
- Federal Reserve view: policies are already extraordinary, and need support from fiscal authorities (public spending) and regulatory authorities (foreclosure and housing finance path)--not further monetary policy adventures (i.e., changing the inflation target)
- A committee that will not be--after the departure of Bernanke, Raskin, and Powell--committed to Bernanke policies
- A committee that will have its new members, if any, chosen via an unforeseeable process
- My view: most likely policy path unchanged