



Larry Summers to Replace Ben Bernanke at the Fed?

Citing an unnamed source from “Team Obama,” [CNBC announced](#) that Larry Summers (shown) will be named head of the Federal Reserve by President Obama to replace outgoing chairman Ben Bernanke, whose term expires December 31.



Despite much media conversation about other potential candidates for the position, chief among them Fed Vice Chairman Janet Yellen, Summers always had the inside track. Summers served as Bill Clinton’s treasury secretary and then director of President Obama’s National Economic Council. Prior to that he was president of Harvard University, where he returned following his departure from the White House staff in November 2010.

Summers is an establishment man through and through, holding degrees from MIT and Harvard and becoming one of the youngest tenured professors at Harvard at age 28. He was a visiting academic at the London School of Economics and served as chief economist for the World Bank in the early ’90s. He caught the attention of Clinton’s Treasury Secretary Robert Rubin, who became Summers’ mentor. Summers served as Rubin’s deputy secretary and then succeeded Rubin as secretary in 1999.

Despite his connections and pedigree, Summers’ resume has been sullied by bad judgments, poor decisions, and a lack of interpersonal relationship skills. In January 2005 his comments that women may be innately less capable than men in science and math [created a storm of controversy](#) that eventually led to his resignation from Harvard.

While president of Harvard, he persuaded the university’s investment committee to gamble with more than \$3 billion of the school’s endowment funds in a series of interest rate swaps which, while [initially successful](#), collapsed with the onset of the Great Recession. By late 2008, those risky investments had led to a loss of \$1 billion, causing margin calls that forced Harvard into the embarrassing position of having to borrow funds to meet its obligations. The school ultimately paid \$500 million in fees to get out of those positions and will pay another \$425 million over the next 30 years to cover those losses.

While a driving force behind the \$800 billion stimulus package that was arranged as the U.S. economy collapsed, Summers collected fees and earned honorariums that turned him from a pauper to a prince. For instance, when he was nominated as secretary of the treasury under Clinton in 1999, Summers listed personal assets of less than \$500,000, but when he returned 10 years later to work with Obama, he listed his assets at between \$17 million and \$39 million. No doubt intending to do good while in Washington, Summers did very well (for himself) indeed. At one point, he earned \$5.2 million during 16 months working for a hedge fund, D. E. Shaw and Company, and another \$2.8 million in speaking fees paid by firms directly benefiting from the stimulus.

His education in Keynesian economics led him to make foolish suggestions about how to create a more



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“just” society, such as the one he made in 2008 [as reported in the New York Times](#). The plan, as David Leonhardt wrote,

goes like this: To undo the rise in income inequality since the late '70s, every household in the top 1 percent of the distribution, which makes \$1.7 million on average, would need to write a check for \$800,000. This money could then be pooled and used to send out a \$10,000 check to every household in the bottom 80 percent of the distribution, those making less than \$120,000.

Only then would the country be as economically equal as it was three decades ago.

As Austrian economist George Reisman [noted about such foolishness](#), what Summers is urging “is armed robbery on a massive scale. That is the essence of any policy of ‘redistribution,’ whether advocated by Summers and Obama or by Lenin, Stalin or Mao.” Reisman explained the inevitable consequences of such an action:

Attempts to redistribute the wealth of businessmen and capitalists serves almost entirely to reduce the supply of means of production and the demand for labor. It is a self-destructive policy of eating the seed corn.

Summers and Obama are ignorant of such facts. Never having studied the works of Mises, they have no way of knowing them....

He’s too shallow and ignorant and his ideas too evil for him to serve in the United States Government in any capacity. Although generally viewed as a prominent professional economist, his actual knowledge of the subject is minimal. This conclusion follows from the fact that the essential subject matter of economics is capitalism.

And Summers’ ideas on redistribution reveal that he fails to understand the nature of the most essential feature of capitalism, namely, private ownership of the means of production and the indispensable role it plays in the standard of living of the average person.

Despite this baggage that he’ll be carrying into the Senate for his confirmation hearings, he is likely to be confirmed anyway, not because of his abilities or experience, but because of his connections. As Heidi Moore, a writer for *The Guardian* and a supporter of Janet Yellen for the position, [noted](#):

Summers, who has faced vociferous objections, has enthusiastic friends in high places determined to get him the job.

One of them is former Treasury Secretary Tim Geithner who, like Summers, has maintained close ties to Wall Street.

And those close ties have given Summers unprecedented access to the White House, leaving Yellen a distant second in the race. Over the past two years, Yellen has seen the president just once, while Summers has been Obama’s guest 15 times.

All that being said, whoever winds up running the Fed really won’t make much difference. Missing from nearly all the discussion about personalities, experience, and baggage is any conversation about the Fed itself. The chief financial enabler of the Great Recession, the prime force behind government spending beyond its means, its continued insistence that its real job is to fight inflation while expanding the money supply to nearly inconceivable levels, the Federal Reserve itself is the institution that deserves all the attention that the media is now lavishing on the personalities. Whoever “wins” — Summers, Yellen, or someone else — the American taxpayer will continue to lose.



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Photo of Larry Summers: AP Images

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