Summers Is Out; Yellen Is In; the Fed Rolls On

Just when it appeared that Larry Summers had the nomination for the next Fed chair all wrapped up, Summers called the White House on Sunday and told his good friend President Obama that he was withdrawing his name from consideration. He then sent a formal withdrawal letter to the president:

> I have reluctantly concluded that any possible confirmation process for me would be acrimonious and would not serve the interest of the Federal Reserve, the Administration or, ultimately, the interests of the nation's ongoing economic recovery.

The president dutifully responded with the appropriate accolades:

> Larry was a critical part of my team as we faced down the worst economic crisis since the Great Depression, and it was in no small part because of his expertise, wisdom and leadership that we wrestled the economy back to growth and made the kind of progress we are seeing today.

Many observers would seriously question about how successfully the administration "faced down" the crisis or how effective it has been in wrestling the economy "back to growth," especially since the crisis had its genesis in the easy money provided by the Fed and the encouragement of previous administrations to loosen mortgage lending standards. They would also question the "progress we are seeing today," as the economy continues to struggle with high real unemployment, low growth, and increasing dour outlook and sentiment readings.

The real reasons Summers asked to have his name removed from consideration were practical, political, historical, and moral.

Practically speaking, the opposition from three Democrats — Senators Jeff Merkley (D-Ore.), Sherrod Brown (D-Ohio), and Jon Tester (D-Mont.) — on the Senate Banking Committee, which would have begun the confirmation process, put the outcome into serious doubt. Democrats outnumber Republicans on that committee 12-10, and the defection would mean that passage would require enlisting help from some Republicans, a dubious proposition at best.

Politically speaking, this is not the best of times for the president. With his poll numbers continuing to drop and a budget and debt ceiling war brewing with the House Tea Party conservatives, it was easy to cast off Summers as a battle not worth fighting.

Historically speaking, Summers carried a lot of baggage into those confirmation hearings. In a clever spoof of Obama's acceptance letter, Barry Ritholtz suggested correctly many of the reasons Obama parted with Summers so easily. Here's an excerpt from that spoof letter:

> Larry was a critical contributor to the radical deregulation that was one of many causes of the worst economic crisis since the Great Depression. It was in no small part because of his lack of expertise, false wisdom and inept leadership that the economy crashed and burned and even today

> is still failing to be back to its full growth potential.
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> As [my] Treasury Secretary, he helped to pass the Commodity Futures Modernization Act [which] turn derivatives into a unique financial instrument with no oversight, reserve requirements, mandated disclosures or listing minimums….
>
> Summers further contributed to the crisis by overseeing the repeal of Glass-Steagall [which resulted in spreading] the financial conflagration of 2008 … to every corner of the economy.
>
> Further, his terrible advice and lack of insight is in large part the reason we see so little progress being made today….
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> I will always blame Larry for the way he damaged my presidency.

Of course Ritholtz overstated for the sake of emphasis and humor. Summers wasn't solely responsible for these failings, just mostly. As Steve Goldstein put it in the *Wall Street Journal*, "The cumulative weight of all those not-entirely-his faults, along with some appalling judgment that's entirely his blame … led him to being too toxic to be confirmed as Federal Reserve chairman."

One of those "appalling judgments" was missing among the reasons Summers pulled out. It had to do with his moral character, and no one, it seems, was willing to question that.

Except for David McClintock who, investigating the "Shleifer affair" at the behest of the *Institutional Investor* magazine, delved into the archives of this outrageous scandal that rocked Harvard during Summers' tenure there as president and cost the university millions in fines and penalties. The Justice Department proved that Harvard's Professor Andrei Shleifer was guilty of massive self-dealing while working with Russia to establish an honest and transparent financial system following the alleged collapse of communism there. McClintock found enough damning material to write 18,000 words about it.

In sum, Summers knew about Shliefer's self-dealings, knew what he was doing was wrong, and nevertheless defended him to the end. Even after paying a $2 million fine for his wrongdoings, Shleifer, thanks to Summers, retains his position at Harvard.

The former dean of Harvard College, Harry Lewis, wrote that "these financial entanglements compromise [Summers'] professional credibility. There is plenty of evidence that Summers has an ethical blind spot about the influence of money on human behavior." He added:

> In 2005 a federal judge found Shleifer to have conspired to defraud the government and held Harvard liable as well. To settle the civil claims, Shleifer paid the government $2 million and Harvard paid $26.5 million as well.
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> Shleifer denied all wrongdoing….
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> Summers remained close to Shleifer, yet claimed in a February 2006 faculty meeting to know too little about the scandal to have formed an opinion about it. This prevarication brought a gasp from the assembled faculty and solidified faculty opposition to the Summers presidency.

With Summers gone, that leaves Janet Yellen (shown) as the only other horse in the race. Timothy Geithner wants nothing to do with the position, and other potential candidates are essentially invisible. The case for Yellen can be made in a single sentence: She will be Bernanke-lite. With her establishment background as a Keynesian economist and her many years in Washington serving variously on the Board of Governors of the Federal Reserve, as former CEO at the Federal Reserve Bank of San

Francisco, and as chair of the White House Council of Economic Advisors under Clinton, she's an easy pick.

So easy, in fact, that a gratuitous piece in the *Washington Post* avoided entirely any mention of the damage the Fed has done and continues to do to the American economy, no matter who is at the helm. Wrote Ezra Klein, Yellen would be "the most qualified Federal Reserve chair in memory." He said she "got the big calls right" (protesting almost silently while the Fed engineered the economy into the Great Recession), and that she "cares a lot about unemployment" (read: She thinks continued expansion of the money supply will stimulate employment in some way that hasn't worked so far). Klein added that she is a "consensus pick" among other Keynesians, and finally, that she would "shatter the glass ceiling," as if gender somehow improves one's ability to operate a counterfeiting machine.

No. Unfortunately all the conversation is about the personality at the head of the Fed while saying nothing about the machinery itself. The best candidate for head of the Fed would be someone who promises to shut the place down. Unfortunately, no one on the now shorter list of nominees is proposing any such thing.

Photo of Janet Yellen: AP Images

A graduate of Cornell University and a former investment advisor, Bob is a regular contributor to The New American *magazine and blogs frequently at www.LightFromTheRight.com, primarily on economics and politics. He can be reached at badelmann@thenewamerican.com*