Yellen’s Policy Views Matter, Not Her Gender

by Eric Grover

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American Banker's editors recently hosannaed the prospect of a woman chairing the Federal Reserve Board.

Janet Yellen's candidacy to replace Ben Bernanke "made history," the publication gushed; "having a woman in a key leadership role can make a meaningful difference to an institution"; her nomination "should be an inspiring, historic moment"; the job is "a promotion she clearly deserves"; "she was clearly the most qualified person for the job." For good measure, the editors implied that nominating anyone else could only be the work of "an old boys' network."

Nary a word on her monetary policy views in these articles.

The Yellen idolatry can hardly be based on her votes and public statements as vice chairman of the Fed, and earlier as president of the Federal Reserve Bank of San Francisco.

With Yellen's support, the central bank has been printing money recklessly, attempting (unsuccessfully) to offset growth-stifling fiscal and regulatory policies.

The monetary base has mushroomed a mind-boggling 424%, from $855 billion on Oct. 10, 2007 to $3.625 trillion on Oct. 16 of this year. This hasn't translated into runaway inflation only because banks are sitting on record reserves and with the administration's boot on its throat, the economy remains in the tank.

With 15 million more Americans now than in November 2007, there are 4 million fewer full-time workers. The 58.6% employment-to-population ratio is hovering near a 30-year low. Real median household income is lower than five years ago.

Marc "Dr. Doom" Faber warns the Fed could soon be printing as much as $1 trillion per month. Sounds preposterously alarmist, yet not so long ago printing $85 billion per month indefinitely would have been hard to contemplate. It will end badly.

Yellen represents continuity.

For anyone thinking real interest rates should be positive or worried about the central bank printing trillions of dollars, there were attractive alternatives for the job, including Stanford economist John Taylor, Dallas Fed president Richard Fisher, Philadelphia Fed president Charles Plosser, and former Kansas City Fed president Tom Hoenig – not that President Obama would ever have nominated any of them.

Sarah Chang, Midori Goto, Hilary Hahn and Anne Sophie Mutter are sublime violinists who happen to be women. Margaret Thatcher was one of Britain's two outstanding prime ministers of the last century. Neither her admirers nor detractors focused on her second X chromosome.

The Fed chairmanship is the second most consequential economic job on the planet. Its occupant should be selected based on experience, temperament and policy considerations. Yellen's policy views are worrisome.

Monetary policymakers are better evaluated on whether they are inflation hawks or doves than whether they are from Mars or Venus. Doves push easy money, trying to pump up the economy, while hawks focus on price stability and tend to support a strong dollar, viewing these goals as promoting maximum sustainable long-term employment and wealth.

The dollar is a unit of account, store of value and medium of exchange. Nobody would argue a 36-inch yard today, 39 inches next year and 48 inches the following year would be a good thing. The dollar has plummeted in value. From 2001 and 1985 to 2012 the dollar fell 31% and 45% against major currencies and gold appreciated 299% and 409%, respectively.

Interest rates are the price of present versus future consumption and investment, the economy's most important price. Keeping them artificially low punishes savers, distorts decision-making and causes malinvestment.

While Obama's Fed board appointees have been doves, many presidents have appointed dove Fed chairmen disguised as hawks, such as "Maestro" Alan Greenspan and "Helicopter" Ben Bernanke. Yellen, however, is an unabashed dove. She studied under Nobel Prize-winning economist, and dove, James Tobin. "It's appropriate for progress in the labor market to take center stage in the conduct of monetary policy," Yellen has said.

Economist Evan Soltas has called her a "hawk in dove's clothing" because in the mid-1990s, concerned about inflationary pressure, she argued for rate hikes. She didn't, however, consistently vote against keeping rates low at the time. "When the goals conflict and it comes to calling for tough trade-offs, to me, a wise and humane policy is occasionally to let inflation rise even when inflation is running above target," she said during this period. Johns Hopkins University economist Steve Hanke more plausibly argues that Yellen's support for higher bank-capital requirements, which take money out of the economy, is a kind of hawkishness.

Decision Economics president Allen Sinai has observed that "the philosophy of Janet Yellen is activism of government policy to achieve objectives" – in tune with this administration.

The Wall Street Journal ranked Yellen the most accurate Fed-Open-Market-Committee forecaster. She's had the gloomiest outlook, acutely understands the fragility of this "recovery," and given her monetary philosophy, is consequently likely to continue highly accommodative monetary policy. But, if printing money were the path to prosperity, Zimbabwe would be Switzerland.

Tea Party heartthrob Sen. Rand Paul threatens to try to block Yellen unless his Fed transparency bill gets a vote. Nevertheless, she's all but certain to be confirmed.

Astoundingly, given his subsequent unprecedented money-printing binge, Bernanke wisely wrote in 1999, "In the long run, the central bank can affect only inflation, and not real variables such as output."

As I've previously argued, Congress should end the Fed's dual mandate so even a hyperdove like Yellen can't engage in easy-money policies, fueling the next crisis.

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