

TRENDMACRO LIVE!

## On Yellen's First Public Speech as Fed Chair

Monday, March 31, 2014

Donald Luskin

The words of a politico, not an independent policymaker. Unless she grows, trouble ahead.

[Janet Yellen's first public speech](#) as Fed chair this morning -- we're going to overlook [her brief "Remarks on Women's History Month"](#) last week -- is being carefully inspected for clarification of her muddled message two weeks ago, in [her first post-FOMC press conference](#) (see ["On the March FOMC"](#) March 19, 2014).

- There was no specific affirmation or contradiction of her sloppy revelation in the press conference that the "considerable period" between the end of asset purchases and the first rate hike would be "you know...something on the order of around six months or that type of thing."
- All she really laid out this morning on specific policy was a general reiteration of the FOMC's "commitment to maintain extraordinary support for the recovery for some time to come," citing her idea of full employment being an unemployment rate of "now between 5.2 percent and 5.6 percent."
- And we learned how she rationalizes to herself her obedience to the policy *fait accomplis* of tapering, put in place in Ben Bernanke's last two FOMC meetings as chair (see ["Bernanke's Last Big Call"](#) January 21, 2014). Yellen says, "recent progress in the labor market means our aid for the recovery need not grow as quickly."

*This first speech was primarily political -- the most political speech given by a Fed chair in our memory. This confirms our fear that Yellen will attempt to transform the Fed from an independent agency that guards the integrity of the nation's currency and banking system into a politicized instrument of social policy (see ["Yellen and Screamin' at the Fed"](#) December 5, 2013).*

- Rather than to clarify any monetary policy issues left unresolved in the press conference, it seems to us that Yellen's intention here was to make up for her political failings.
- In particular, she must have been ashamed of her vacuous response to the last question put to her, a soft-ball seeking her reaction to the "human side of the impact of the economic crisis and slow recovery." When she was done with a decidedly non-human response involving "business contacts" and "programs," she simply stood up and walked out of the room without so much as a "thank you" for her audience.

### Update to strategic view

**US FED:** Yellen's first public speech as Fed chair was highly politicized, downplaying sober policy analyses and emphasizing emotional appeals based on the hardships of joblessness. Coming on the heels of a muddled post-FOMC press conference, this affirms our fears that Yellen will be an ineffective leader. It doesn't matter now, because there are no important decisions for the Fed to make. But unless Yellen grows in the job, the next time there's a crisis, her lack of leadership and communication skills will lead to schism in the FOMC and great dismay in markets.

[\[Strategy Dashboard home\]](#)

- So this morning, her first speech as new chair begins with the assertion that the Fed's "goal is to help Main Street, not Wall Street."
- She goes on to use a rhetorical device used often by President Obama -- the citation of individual persons' names and their various hard luck stories.
- We learn that "Vicki Lira lost her full-time job of 20 years when the printing plant she worked in shut down in 2006." Evidently not the printing plant used by the Fed, but be that as it may, "Today she enjoys her part-time job serving food samples to customers at a grocery store but wishes she could get more hours."
- And we hear the sad tales of Dorine Poole who "lost her job processing medical insurance claims, just as the recession was getting started," and of Jermaine Brownlee who "saw his wages drop sharply as he scrambled for odd jobs and temporary work."
- Reasonable people may differ about the use of such emotional appeals in speeches by politicians. But in our view it is unseemly for a Fed chair -- and signals a dangerous swing away from reliance on objective economic arguments grounded in research and held to sensible cost-benefit standards.
- How different this is from [Ben Bernanke's first speech](#) as Fed chair. His choice of venue -- [Princeton's Center for Economic Policy Studies](#) -- signaled the centrality for Bernanke of the science of economics. The speech was a hymn to price stability as a central bank's primary policy mission. Bernanke placed this policy view explicitly into the context of prior views and statements by his predecessors Alan Greenspan and Paul Volcker.
- By contrast, Yellen doesn't even mention her predecessors. As we have written, her attitude is that her own views are entirely sufficient (see ["So Welcome to the Yellen Years"](#) November 15, 2013).
- Yellen's very different choice of venue speaks volumes. The "2014 National Interagency Community Reinvestment Conference" in Chicago is [advertised as](#) "the premier training and networking event for community development professionals" -- that is, community organizers.
- And as we expected (see ["On Yellen's First Congressional Testimony"](#) February 11, 2014), Yellen this morning essentially throws out Bernanke's central focus on price stability, waving it away by saying "that is not a dilemma now, because inflation is well below 2 percent."
- *This represents a fundamental multi-generational shift in emphasis by the Fed.*
- For Volcker and Greenspan, price stability was an urgent protective function.
- For Bernanke, the focus on price stability was based on his judgment about the outcomes a central bank can and can't actually deliver. Bernanke argued that all a central bank can really do is influence price stability for good and for ill. Because price stability leads to economic stability, and because economic stability leads to growth, and because growth leads to full employment, for Bernanke assuring stable prices automatically fulfills the Fed's jobs mission.

---

## Contact TrendMacro

On the web at  
[trendmacro.com](http://trendmacro.com)

Follow us on Twitter at  
[twitter.com/TweetMacro](https://twitter.com/TweetMacro)

Donald Luskin  
Chicago IL  
312 273 6766  
[don@trendmacro.com](mailto:don@trendmacro.com)

Thomas Demas  
Charlotte NC  
704 552 3625  
[tdemas@trendmacro.com](mailto:tdemas@trendmacro.com)

Lorcan Roche Kelly  
Agenda Research  
Sixmilebridge Ireland  
617 600 6969  
[lorcan@trendmacro.com](mailto:lorcan@trendmacro.com)

[\[About us\]](#)

---

## Recommended Reading

[Profit Margins: The Death of a Chart](#)  
Philosophical Economics  
March 31, 2014

[\[Reading home\]](#)

- But in Yellen's mind, the Fed can directly influence employment -- by "influencing interest rates...to help families afford things they need."
- Never mind that families on fixed incomes, facing zero returns on their conservative investments, now cannot afford the things they need. That trade-off is not mentioned -- *no* costs are mentioned this morning, only benefits.
- This is [what Yellen calls](#) "Yale Economics in Washington."

Our purpose here is not to nit-pick Yellen's speech, nor to attack her personally. But as economic forecasters, it is incumbent on us to understand both the philosophical orientation of a policymaker as important as a Fed chair, and the way that policymaker expresses that philosophy to the markets. We regret to have to report that nothing we have seen from Yellen this year moves us off our initial fears -- that her policies are dangerously interventionist, and that her leadership and communications skills are inappropriate to the institution she now leads.

- There are no important decisions the Fed has to make right now, so none of this matters right away.
- But at some point in the future Yellen will have to make difficult decisions, and get the FOMC and the markets on-side with her to support those decisions.
- Maybe by then she will have grown into her job. But the Yellen we have seen so far this year isn't there yet. Based on what we know now, it's only a matter of time before there's a crisis in which Yellen's approach leads to schism on the FOMC and a great deal of dismay in markets.
- Again, there's nothing to be done about it right now. But in our view it's the one of the few credible systemic threats that remain in our post-crisis global economy.

---

### Bottom line

Yellen's first public speech as Fed chair was highly politicized, downplaying sober policy analyses and emphasizing emotional appeals based on the hardships of joblessness. Coming on the heels of a muddled post-FOMC press conference, this affirms our fears that Yellen will be an ineffective leader. It doesn't matter now, because there are no important decisions for the Fed to make. But unless Yellen grows in the job, the next time there's a crisis, her lack of leadership and communication skills will lead to schism in the FOMC and great dismay in markets. ▶