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On Yellen for Fed Vice Chair

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Donald Luskin

Another smart Obama appointment emphasizing policy continuity.

We are happy to learn that San Francisco Fed president Janet Yellen will be President Obama's appointment to succeed retiring Donald Kohn as vice chair of the Fed Board of Governors. Like the nomination of Tim Geithner for Treasury secretary, and the renomination of Ben Bernanke as Fed chair and Sheila Bair as FDIC chair, this continues Obama's pattern of sticking with the policy-makers who saw the banking system through the credit crisis of 2008-2009. With markets still shaky, these appointments of the devils-we-know are just the right thing to help confidence recover.

Before Bernanke was renominated last year, we had put forward Yellen as his only serious competition (see ["America's Next Top Fed Model"](#) July 27, 2009). Not only was she a crisis-proven leader, but also very much cut from the same policy cloth as Bernanke -- but female and a Democrat. The biggest negative against her then was that while we can attest from personal experience that she is a towering intellectual presence, she is at the same time a diminutive white-haired lady who doesn't look the part of Fed chair. For the inside-baseball role of vice chair, she's perfect.

Yellen's new title won't necessarily make her a more powerful voice at FOMC meetings, because she has always been one anyway, even at times when she rotated out of a formal voting role. Throughout the crisis, she was consistently one of five Fed officials whose opinions really counted at FOMC meetings -- the others being Bernanke, Kohn, Geithner and Kevin Warsh. She's well known as a dove. But most fundamental for the policy outlook long-term, Yellen's mindset is nearly identical to that of her predecessor: she's a true-believer in the output gap theory of inflation. So as vice chair we think she will vote as Kohn would have in 2010: to keep Fed policy ultra-easy in the face of a persistently high unemployment rate, believing both that such policy will help ameliorate joblessness, and that joblessness will ameliorate any inflationary risks.

Bottom line

Janet Yellen is another crisis veteran appointed to assure markets of policy continuity. Like Donald Kohn whom she replaces. She will vote to keep policy ultra-easy this year in the face of a persistently high unemployment rate. ▶

Update to strategic view

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