New Conductor, Same Song?

Two significant events in the Federal Reserve’s storied history will occur in the next few months. Not only will the Fed, arguably the second most powerful institution in the country, celebrate its centennial. It will also have its first female chief.

But as Janet Yellen takes over the chairmanship from Ben Bernanke, don’t expect much change. Recent polls of professional economists indicate that monetary policy will not change under Yellen’s leadership.

When Yellen becomes conductor of the Fed orchestra, she will select the same musical piece as Bernanke. It is called “print more money.”

Like Bernanke, Yellen is a proponent of the stimulus program known as quantitative easing. This is accomplished by large purchases of bonds, currently at the rate of $85 billion per month. Yellen has been one of Bernanke’s staunchest allies in this endeavor.

It should be noted that this approach has deeply divided Fed members. And it has alarmed some experts who believe the Fed is overreaching and bordering on exceeding its powers.

That Yellen, holder of a doctorate in economics from Princeton University, is well qualified for the job is without doubt. She has been vice-chairman of the Fed since 2010 and previously served as president and CEO of the Federal Reserve Bank of San Francisco. Earlier, she was chairman of President Clinton’s Council of Economic Advisors.

As a member of the Fed, she has advocated pumping money into the financial system, keeping interest rates near zero until the unemployment rate reaches 6 percent.
This approach is counter to the original purpose of the Fed. It was established primarily to provide liquidity during financial crises and ensure low and stable rates of inflation.

Critics point out that the low-interest rate environment adopted by the Fed increases the risk of high inflation when the economy starts growing again. In every period of history, tremendous growth in the money supply as practiced by the Bernanke Fed has resulted in high rates of inflation.

In fairness, Yellen has attempted to assuage the fears of her critics. She has publicly stated that when the economy experiences substantial expansion and rates needs to be raised to fight inflation, she will move in that direction. Let’s hope Yellen will take this approach.

Wayne Curtis, Ph.D., a former superintendent of Alabama banks and Troy University business school dean, is retired from the board of directors of First United Security Bank. Email him at wccurtis39@gmail.com