Yellen named to head Fed

By DEAN CALBREATH, The Daily Transcript
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In a lopsided vote, the U.S. Senate has confirmed Janet Yellen to be the first woman to head the Federal Reserve in its 100-year history, after Ben Bernanke finishes his second term at the end of January.

Despite the intense partisan rancor on Capitol Hill over the past several years, the Senate voted 56-26 to support Yellen, with 11 Republicans breaking ranks to side with the Democratic majority. Eighteen legislators missed the vote because wintry weather prevented them from getting to the capital.

Local economists say the vote is a positive sign for Yellen’s term.

"I would've expected things to be a little bit rougher in light of all the things going on," said Marney Cox, economist at the San Diego Association of Governments.

"It's not like anyone should have had any problems with her, but these days one side could have held up her nomination to gain political leverage. I'm glad everything went through so smoothly." Yellen, a former chair of President Bill Clinton's Council of Economic Advisors, was chief executive of the San Francisco Federal Reserve Bank from 2004 to 2010, when President Obama appointed her as vice chairman of the Fed.

In her former position, overseeing Fed operations in the Pacific states, she sounded an early alarm about the financial problems that ultimately led to the 2008 economic crash -- and she later became a proponent of using Fed investments to stimulate the economy. She made repeated trips to San Diego to keep local economists, bankers and business leaders abreast of the Fed's actions and policies.

In her most recent visit last January, Yellen warned that the financial crisis had been exacerbated by poor regulation of the banking system.

"Some financial innovations, over time, increased the system's vulnerability to financial shocks that could be transmitted throughout the entire economy with immediate and sustained consequences that we are still working through today," she said.

"In response to the crisis and the weaknesses it revealed, governments around the globe are acting to improve financial stability and reduce the risks posed by a highly interconnected financial system."

Cox, who met her several times over the past decade, said she has a "relatively conservative approach" to the Fed's role, "giving a lot of deference to the underlying strength of the economy."

He expects that under her regime, she will continue to gradually scale back the Fed's stimulus spending and to pave the way for inflation to rise from its current 1.7 percent to the Fed's long-
time 2 percent target, while raising the 10-year Treasury note as much as a percentage point higher from its current range of 3.5 to 4 percent.

That, in turn, could cause mortgage rates to rise a percentage point from their current range of 4.5 to 5 percent, which could slow the growth of home prices to about 5 percent next year. Tony Cherin, professor of finance at San Diego State University, said that although Yellen will continue the gradual cutbacks in stimulus that Bernanke started, he does not expect Yellen to make any major reduction in the Fed's stimulus program until the jobless rate comes down significantly.