



View from the Beltway

The Right Woman For the U.S. Treasury

BY OWEN ULLMANN

*Why Janet Yellen was the perfect
choice for today's tumultuous times.*

Janet Yellen nearly shunned the opportunity to make history as the first female Secretary of the Treasury in the department's storied 232-year history. Ever modest, Yellen had initially demurred last summer when the Biden campaign team sounded her out for the powerful post. She noted that at age seventy-four, she had been enjoying a more relaxed lifestyle and the lucrative speaking circuit during the two years since President Donald Trump had unfairly dumped her as chair of the Federal Reserve despite an excellent record after four years in that job.

Fortunately for Biden—and the country—Yellen changed her mind after friends and colleagues convinced her that her unique set of skills was needed to help rescue the United States from the ravages of an economy left in turmoil by the Covid-19 pandemic and the vicious political polarization remaining in the wake of Trump's deranged departure from the White House.

In so many ways, Yellen is precisely the kind of Treasury secretary needed during these tumultuous times. She is a brilliant economic analyst and forecaster, obsessively organized and prepared for any challenge, deeply compassionate about

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the need to help those suffering the most financially because of the pandemic, and a genuinely nice person able to disarm political critics from the left to the right.

Adam Posen, president of the Peterson Institute for International Economics, has aptly summed up her abilities, writing in the last issue of *TIE*: “Janet Yellen is set to be the most influential secretary of the Treasury in decades. Her unmatched qualifications and personal gifts make that attainable.”

Republicans and Democrats in the United States Senate agreed when they confirmed her to the post by an overwhelming 84–15 vote that belied the deep political polarization gripping Congress. It was preceded by a unanimous vote of the Senate Finance Committee, where members of both parties hailed her as the most qualified candidate for the job in history even if they didn't agree with all her positions.

Here are three of the vital qualities she brings to the job:

First, Yellen understands the economy. Yellen has been a shrewd economic analyst for more than fifty years, dating as far back as her high school days. As editor of the school newspaper, *The Pilot*, she wrote a thoughtful editorial, “What Kind of Job,” that offered students advice

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on how to pursue rewarding careers. She went on to major in economics at Brown University's Pembroke College, got her Ph.D. from Yale (the only woman in the program) studying under her mentor, Nobel Prize economist James Tobin, and taught economics at Harvard for five years.

After brief stints at the Fed in Washington, where she met future husband and Nobel Laureate George Akerlof, and then at the London School of Economics, Yellen taught and conducted research at the Haas School of Business at the University of California at Berkeley. She later served on the Fed Board of Governors, as chair of the Council of Economic Advisers for President Clinton, President of the Federal Reserve Bank of San Francisco, Vice Chair of the Fed, and then Fed Chair for one term. She is the first person of either gender to achieve the government trifecta as a CEA chair, Fed chair, and Treasury Secretary.

Putting all of her training to work, Yellen was one of the early voices warning of the coming subprime mortgage crisis and the need for tighter regulation to prevent a recurrence. Her

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forecasting abilities were confirmed by a *Wall Street Journal* analysis of the accuracy of top Fed policymakers' predictions from 2009 to 2012. Yellen came out on top.

Donald Kohn, who preceded Yellen as Fed vice chair, recalls Yellen as a junior member of the Board of Governors, homing in on critical issues that all the other members of the Board of Governors missed.

"Quite often, she would just go to the heart of the matter. And it struck



OFFICIAL WHITE HOUSE PHOTO BY ADAM SCHULTZ

Treasury Secretary Janet Yellen (at Biden's left) joins **President Joe Biden** and **Vice President Kamala Harris** for a weekly economic briefing at the White House on January 29, 2021. To Yellen's left is Council of Economic Advisers member **Jared Bernstein**. To the Vice President's right are National Economic Council Director **Brian Deese**, and Council of Economic Advisers member **Heather Boushey**.

me that she was able to do that because her mind was so well organized," he recalls. "Her thinking was so logical that she could see where the argument was going, where it was strong, where it was weak, despite the fact that all these really smart people came before her. So, I was very, very impressed with her."

As Fed chair, Yellen ably guided the economy on a steadily upward course of decent growth with strong job gains, though wages failed to rise much, and inflation continued to run below the Fed's 2 percent target.

In her new job, Yellen will put her savvy to work. She will play a major role in helping the administration find the most effective ways to revive the economy back to its pre-pandemic levels, deal with China on contentious trade disputes, and assess what regulators should do about the stock market chaos revolving around GameStop,

AMC, and other companies caught in a war between hedge funds and individual investors who banded together on social media.

Second, she's not an ideologue. Yellen trained as a traditional Keynesian economist but has let her research and analysis guide her to economic solutions rather than remain wedded to an intransigent world view. She proved that as Fed chair, when she angered both progressive Democrats for nudging up interest rates and hawkish inflationphobes who complained she needed to raise rates higher and rein in the Fed's ballooning balance sheet.

"When she's doing economics, she's very well-grounded empirically and it's not just about theory," says David J. Teece, a professor of global business at Haas who worked with Yellen at the business school for many years. "She is not doctrinaire. A lot of

well-meaning people get captured by elegant analytical models that may be weakly connected to any recognizable reality. Janet's never been that way. She's always been close to the numbers and close to the facts on the ground, and very, very willing to listen to people."

Other colleagues echo that observation, noting that Yellen always keeps an open mind when discussing an issue and will eventually come out with a strong fact-based viewpoint in a respectful manner that does not make

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those with differing arguments feel insulted or defensive.

Lois Hedberg, a high school classmate of Yellen who has gone on to become a communications expert, notes that Yellen excels at expressing her views. "She's really conveying what she wants in the way she wants her listeners to understand. That's a powerful communication tool rather than just shooting from the hip," says Hedberg. "She never really calls attention to herself, but rather to what she is saying. That is quite a talent."

And third, she's empathetic. Like Biden, Yellen relates to the needs of those in economic distress as a result of the pandemic. That is a side of her that dates back to her childhood, when she watched her father, a family physician, treat working-class people in his home office. She saw first-hand those who had suffered during the Great Depression or in later years, and how her father had tended to them with respect and compassion.

As Fed chair, she elevated the issue of income inequality and the needs of lower-income groups to the top of the central bank's concerns, a problem it traditionally had ignored. Under her leadership, the Fed kept interest rates at a level that would let the economy run hotter than its potential—and risk the possibility of slightly higher inflation—in an effort

to accelerate job and wage growth for lower-income workers.

In her early days as Treasury Secretary, Yellen has repeated that concern, a preoccupation also unusual for the financial post. After she was sworn in on January 26, she sent a "Day One Message" to department employees that told them of the importance of helping those in need because of the "K-shaped recovery," a reference to the fact that the pandemic was simultaneously producing great wealth for many high-income earners and deepening poverty for the less fortunate.

"[L]ong before Covid-19 infected a single individual, we were living in a K-shaped economy, one where wealth built on wealth while certain segments of the population fell further and further behind," she wrote. "[O]ur Department can play a major role in addressing [the crisis]. After all, economics isn't just something you find in textbooks. Nor is it simply a collection of theories. Indeed, the reason I went from academia to government is because I believe economic policy can be a potent tool to improve society."

Among Yellen's attributes, her humility and aversion to ideological economic frameworks will serve her well as she navigates the economy

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into uncharted waters. The U.S. national debt—indeed, debt around the world—is exploding with unknown consequences ahead. For now, ultra-low interest rates allow the Biden administration to embrace a massive new coronavirus relief package with few immediate negative consequences.

Yellen is well aware, however, that there are no models able to accurately

predict how long the world can pile up debt without triggering a spike in interest rates and reigniting inflation. She certainly has never endorsed Modern Monetary Theory, which contends that the U.S. government can live on ever-larger deficits indefinitely without negative consequences. But will she heed the cautions sounded

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by predecessors in the job who worry that the unprecedented peacetime accumulation of debt is a ticking time bomb? Two former Treasury secretaries, Democrat Lawrence Summers, who served in the Clinton administration, and Republican James A. Baker III, who served in the Reagan administration, worry that such high levels of debt are unsustainable and risk high inflation and interest rates, and a precipitous drop in the dollar.

One has to wonder if the German-Chinese trade and technology agreement signed shortly after Biden's election is a precursor to a push for a new basket of currencies to replace the dollar as the world's reserve currency if the dollar plunges as a result of a U.S. debt crisis.

These are just some of the troubling issues Yellen will be forced to contend with as she adjusts to her new job with its vast portfolio, much of it unfamiliar to her. Surely, she will make missteps as part of her learning curve. But from her lifelong habits, abilities, and beliefs, we can be assured that Yellen will perform her job with total dedication and transparency. She will always be prepared, analyze every problem down to the last bit of evidence, and act in what she believes is the best interests of all Americans.

What more could we ask? ◆