Treasury Nominee Janet Yellen (the Un-Steve Mnuchin)

By Kerry Pechter *Thu, Nov 26, 2020*

Yellen, the first woman nominated for Treasury chief, is an academic economist, not a Wall Streeter. As Fed chief, she was known as an interest rate "dove;" more inclined to maintain high employment than stamp out inflation.

If Janet Yellen, Joe Biden's nominee for Treasury chief, is confirmed by the US Senate, she would be the first female in that role and a key member of the Biden team—which so far includes a woman vice-president, and female nominees for Director of National Intelligence and United Nations ambassador.

The only prior individual to have led both the Treasury and the Federal Reserve—Yellen was Obama's Fed chair—was William Gibbs McAdoo, who was the first Fed chief (December 1913 to August 1914).

Yellen brings an academic economist's perspective to the job rather than a Wall Street perspective. As Fed chief, she was known as an interest rate "dove;" she's more inclined toward maintaining employment (with low rates) than stamping out inflation (with high rates).

In another sign of pro-labor sentiment, she co-authored (with her husband, Nobel economist George Akerlof) wrote "Efficiency Wage Models of the Labor Market," which offers rationales for the efficiency wage hypothesis in which employers pay above the market-clearing wage, in contradiction to neoclassical economics.

Yellen is likely to try to reverse her predecessor's decision, reported by *Bloomberg News* this week, to move hundreds of billions of dollars from a Covid-related lending program to Treasury's general fund:

> Treasury Secretary Steven Mnuchin will put $455 billion in unspent Cares Act funding into an account that his presumed successor, former Federal Reserve Chair Janet Yellen, will soon need authorization from Congress to use.
>
> The money will be placed in the agency's General Fund, a Treasury Department spokesperson said Tuesday. Most of it had gone to support Federal Reserve emergency-lending facilities, and Mnuchin's clawback would make it impossible for

Yellen as Treasury secretary to restore for that purpose without lawmakers' blessing.

The basic functions of Treasury include:

- Managing Federal finances
- Collecting taxes, duties and monies paid to and due to the US and paying all bills of the US currency and coinage
- Managing government accounts and the public debt
- Supervising national banks and thrift institutions
- Advising on domestic and international financial, monetary, economic, trade and tax policy
- Enforcing Federal finance and tax laws
- Investigating and prosecuting tax evaders, counterfeiters, and forgers

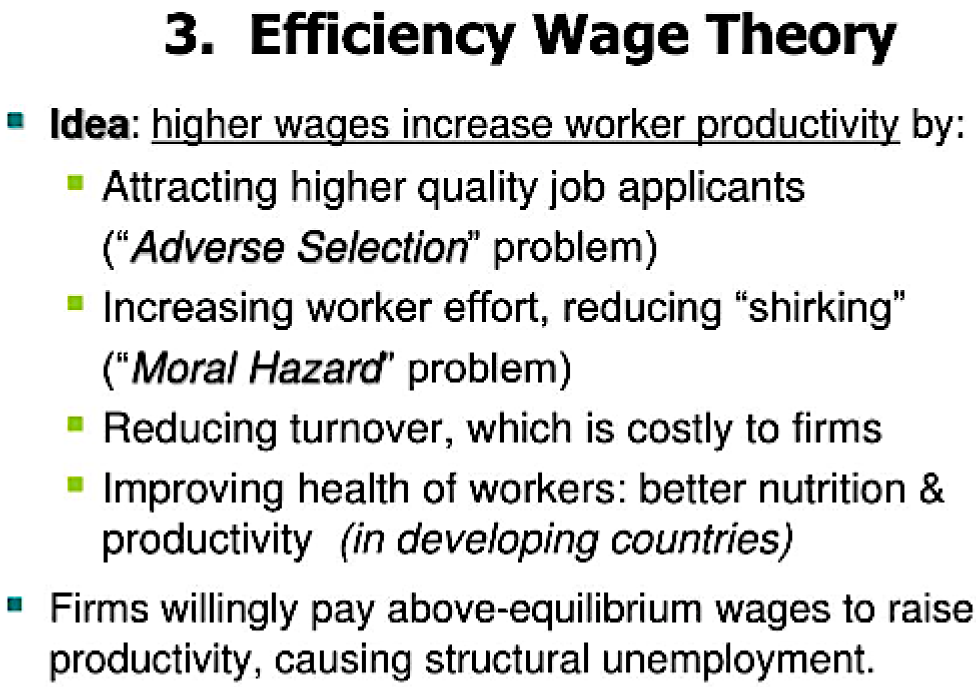
Democrats swiftly criticized the move, with Bharat Ramamurti, a member of the congressionally appointed watchdog panel overseeing Fed and Treasury Covid-19 relief funds, saying "the good news is that it's illegal and can be reversed next year."

… Mnuchin insists that he is following the letter of the law in sunsetting the Fed's Cares-related lending programs. He said that many markets are no longer in danger of seizing up and don't need aid beyond next month, when the programs are scheduled to expire.

"For companies that are impacted by Covid — such as travel, entertainment and restaurants — they don't need more debt, they need more PPP money, they need more grants," Mnuchin said in an interview last week.

Yellen has been described as a Keynesian economist, which refers to the ideas of John Maynard Keynes, a British economist (1883-1946) who advocated changing the monetary system to fight the unemployment and deflation that followed the First World War in Britain. Though in favor of free trade, Keynes opposed the laissez-faire economic philosophy of the late 19th century.

His 1919 book, "The Economic Consequences of the Peace," foresaw the blowback from demanding more reparation payments from Germany than it could afford after losing WWI. His ideas influenced US policy until the inflation of the 1970s (after Nixon "closed the gold window" in 1971 and OPEC raised oil prices in 1973), when monetarists like Milton Friedman and supply-side economists like Arthur Laffer gained influence.



It remains to be seen how Yellen would work with Donald Trump's Fed chair, Jay Powell. Powell and Mnuchin disagreed last week over policy related to mitigating Covid's damage to the US economy. According to a November 19 *Bloomberg News* opinion piece:

> In what might be an unprecedented public spat between two of the nation's most prominent economic leaders, Mnuchin sent a letter to Powell on Thursday that said he would let certain emergency lending facilities created by the Coronavirus Aid, Relief, and Economic Security Act expire on Dec. 31, citing what he saw as "congressional intent." Moreover, he requested that the Fed return almost $200 billion of unused funds to the Treasury, which would "allow Congress to re-appropriate $455 billion, consisting of $429 billion in excess Treasury funds for the Federal Reserve facilities and $26 billion in unused Treasury direct loan funds."

> The Fed responded almost immediately with a short statement: "The Federal Reserve would prefer that the full suite of emergency facilities established during the coronavirus pandemic continue to serve their important role as a backstop for our still-

> strained and vulnerable economy."

Yellen's tenure as Fed chair was noted for job and wage growth, both of which occurred while she maintained low interest rates, according to Wikipedia. On December 16, 2015, however, she increased the Fed funds rate for first time since 2006. (In 2019 and 2020, under Powell, rates went back down.) Yellen reversed some of the policy responses to the subprime mortgage crisis of 2008. Notably, she oversaw a program to sell Treasury and mortgage bonds that the Fed had purchased to stimulate the economy.

Yellen may not have a lock on confirmation by the Senate. After what may have been the most bitter election since 1860, with Democrats and Republicans agreeing only that they couldn't live with a government run by the other side, it's unclear whether Senate Republicans will try to frustrate the Biden administration's attempts to assemble a cabinet. On January 6, 2014, Yellen was confirmed as Fed chair by a 56-to-26 vote—the narrowest margin ever for that position.