The New Fed Chief, Same as the Old Fed Chief?

Janet Yellen's confirmation to a four-year term as head of the Federal Reserve was virtually guaranteed in late November despite partisan discord. The current vice chairwoman of "the Fed" will replace Chairman Ben Bernanke, whose term ends on January 31, 2014.

The first woman to hold this venerable post in the Fed's 100-year history, Yellen will bring an impressive array of academic and policymaking credentials to the job. She earned a Ph.D. in economics from Yale and held faculty appointments at Harvard and the London School of Economics. She chaired critical economic posts in the Clinton Administration and has more Federal Reserve experience than outgoing chief Bernanke had when he became chairman.

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Big Shoes to Fill

Yellen will need every ounce of experience she can muster to lead the institution that some would say -- by necessity -- has become far more influential and powerful than it ever was intended to be. Over the past several years, Chairman Bernanke has guided the Fed through the most tumultuous period in the nation's history since the Great Depression. His unconventional and at times controversial rescue plan expanded the Fed's role from one of managing the nation's monetary policy to one of forging and leading economic policy.

Key points of his plan included the bailout of failing banking titans such as JP Morgan Chase and Goldman Sachs, the lowering of short-term interest rates to zero percent, the lowest level in history, and perhaps his most lasting legacy, the policy of stimulus spending -- buying bonds and other assets in order to jump-start the failing economy -- also known as "quantitative easing." The most recent iteration of the policy, dubbed QE3, has the Fed buying $85 billion worth of bonds a month. Now in its fifth year, the policy has drawn criticism from many corners of the economic and political world, and left countless detractors wondering what, if anything, it has done to improve the post-crisis economy.

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Yellen vs. Bernanke

How will the Fed under Yellen differ from the policies put forth by Chairman Bernanke? A recent *Wall Street Journal* poll of private sector economists found that most think Yellen will pursue policies similar to those that Bernanke would have followed had he stayed on for another term. Moreover, a majority of those polled think Yellen would act decisively to head off a future outbreak of inflation.[1]

At her confirmation hearing before the Senate Banking Committee on November 14, Yellen stated:

"We have made good progress, but we have farther to go to regain the ground lost in the crisis and the recession. Unemployment is down from a peak of 10 percent, but at 7.3 percent in October, it is still too high, reflecting a labor market and economy performing far short of their potential. At the same time, inflation has been running below the Federal Reserve's goal of 2 percent and is expected to continue to do so for some time.

"For these reasons, the Federal Reserve is using its monetary policy tools to promote a more robust recovery. A strong recovery will ultimately enable the Fed to reduce its monetary accommodation and reliance on unconventional policy tools such as asset purchases. I believe that supporting the recovery today is the surest path to returning to a more normal approach to monetary policy."[2] While she went on to say that there is no set timetable for tapering the Fed's bond-buying policy, Yellen acknowledged that stimulus spending "can't continue forever."[2]

Implications for the Street

For now, at least, Yellen's remarks struck a reassuring note for many investors who anticipate that she will take a slower and more deliberate approach than her predecessor might have to deciding when to begin trimming the Fed's stimulus spending. And that accommodative stance could mean continued good news for the markets, which for more than four years have drawn their main fuel from the Fed's various forms of financial stimulus.[3]

[1]Source: *The Wall Street Journal*, "Economists Don't See Much Difference Between Yellen Fed and Third Bernanke Term," October 9, 2013.

[2]Source: The Federal Reserve, Testimony, Vice Chair Janet L. Yellen, Confirmation hearing before the Committee on Banking, Housing, and Urban Affairs, U.S. Senate, Washington, D.C., November 14, 2013.

[3]Source: *The Wall Street Journal*, "Yellen Keeps Stock-Market Gloom at Bay," December 1, 2013.