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Summers dismissed QE effectiveness

By Robin Harding in Washington

Lawrence Summers

Lawrence Summers made dismissive remarks about the effectiveness of quantitative easing at a conference in April, raising the possibility of a big shift in US monetary policy if he becomes chairman of the Federal Reserve.

"QE in my view is less efficacious for the real economy than most people suppose," said Mr Summers according to an official summary of his remarks at a conference organised in Santa Monica by Drobny Global, obtained by the Financial Times.

Mr Summers has emerged in recent days as a leading candidate to succeed Ben Bernanke as head of the world's most important central bank. People briefed on the process say the Obama administration has framed its selection criteria in a way that makes Mr Summers, a former Treasury secretary, the obvious choice.

Mr Summers – who served as President Barack Obama's chief economic adviser from 2009-2010 – has seldom spoken in public about monetary policy. Markets have little sense of his current thinking and may be surprised by his apparently hawkish stance on QE.

The disclosure of his remarks comes as the race for the Fed chairmanship is widely regarded as being between Mr Summers and Janet Yellen, the current Fed vice-chair, who has been an architect of its QE policies. The Fed is currently purchasing assets at a pace of $85bn a month.

In his remarks in April, Mr Summers said it was likely either the economy would accelerate, or else estimates of its growth potential would have to come down.

"If we have slow growth, we are not going to keep thinking that 5.5 per cent unemployment is normal," said Mr Summers. "We are going to decide rightly or wrongly that the potential of the economy is less and therefore we are going to decide that we are closer to that potential and that is going to operate in favour of suggesting that we should normalise interest rates."

In his own words: Lawrence Summers

Read his columns from the FT's Opinion page

Mr Summers gave a highly optimistic outlook for the US economy – even more so than the Fed's recent forecasts – saying the risks to growth are significantly to the upside.

"I think the market is underestimating the pace at which the Fed will alter its current course and the consequences of that for interest rates," he said.

People who have discussed monetary policy with Mr Summers in recent years say the remarks reflect his views on QE, but he shares a similar economic framework to Mr Bernanke and Ms Yellen, and would keep monetary policy loose in order to support the economic recovery.

"I think we are a long way from tight labour markets and therefore that the risks of acceleration in inflation are substantially less than many people suppose," said Mr Summers. "Since our problem right now is that there isn't enough pressure in labour and product markets, I don't see the risk that we are headed for significant levels of inflation."

However, the people who have discussed policy with him say Mr Summers regards fiscal policy as a more effective tool than monetary policy. "More of what will determine things going forward will have to do with fiscal policy and that there is less efficacy from quantitative easing than is supposed," he said in his Santa Monica remarks.

Mr Summers said that while QE does little good it also does little harm. "If QE won't have a large effect on demand, it will not have a large effect on inflation either," he said.