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Summers Hedges His Doubts on Fed's Bond Buying

Potential Bernanke Successor Holds Nuanced Views on Monetary Policy

By JON HILSENRATH

Lawrence Summers, a leading candidate to be the next Federal Reserve chairman, likely wouldn't beat a rapid retreat from the easy-money policies pursued by Ben Bernanke if he gets the job.

A close reading of Mr. Summers's columns and speeches, as well as conversations with people familiar with his thinking and a June interview with him, show that Mr. Summers has been skeptical about the benefits of the Fed's huge bond-buying programs, known as "quantitative easing," but that he also has said he sees few harmful side effects stemming from them.

David Wessel explains that Larry Summers, a leading candidate to replace Federal Reserve chairman Ben Bernanke, is unlikely to rapidly retreat from the Fed's bond-buying program, based on WSJ research. Photo: AP.

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Mr. Summers's views are of intense interest, both in Washington and on Wall Street, because the next Fed chairman likely will have to manage the exit from extraordinarily easy policies intended to bolster the economy. Investors have become unsettled about any mention of the Fed's pulling back from the bond buying, and both Democrats and Republicans have been vocal about what they would like to see from the next Fed chief.

Their records show that both Mr. Summers and his apparent chief rival for the Fed nomination, Janet Yellen, currently the central bank's vice chairwoman, have said the government, in general, should do more to support the current weak economy. Mr. Summers has been an outspoken advocate of more federal spending now, particularly on infrastructure, to boost growth. His views on monetary policy are more nuanced.

In April, at a private gathering of investors sponsored by Drobny Global Advisors, an investment advisory group, Mr. Summers said, "there is less efficacy from

Bloomberg News

Lawrence Summers, shown in 2010, has expressed skepticism over the benefits of the Fed's bond-buying program but also sees few side effects.

quantitative easing than is supposed," according to notes of the meeting reviewed by The Wall Street Journal.

But, Mr. Summers added, "The corollary of that is that if QE won't have a large effect on demand, it will not have a large effect on inflation either. So this is not a compelling argument against QE."

Fed officials conclude a two-day meeting Wednesday, at which they will discuss what to say about their plans for continuing the $85 billion-a-month bond-buying program.

Andres Drobny, who runs the firm, said in an interview that Mr. Summers indicated a belief that tax-and-spending stimulus would have more impact on the economy than monetary policy, given that interest rates are already very low. "It was a very traditional Keynesian view of monetary policy," Mr. Drobny said, referring to the economic theory on the role of government in stoking demand during downturns.

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	Overall	Inflation	Labor	Growth
1. Janet Yellen	0.52	0.64	0.64	0.27
2. William Dudley	0.44	0.64	0.50	0.30
3. Elizabeth Duke	0.40	0.50	0.67	0.17
4. Richard Fisher	0.29	0.35	0.50	0.23
5. Fed Chief*	0.29	0.33	0.40	0.14
6. Charles Evans	0.28	0.72	0.31	-0.67
7. Dennis Lockhart	0.24	0.27	0.72	0.29
8. Sandra Pianalto	0.22	0.44	0.25	-0.03
9. Eric Rosengren	0.21	0.50	0.13	-0.50
10. Ben Bernanke	0.19	0.44	0.31	-0.17

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These views echo those of Mr. Bernanke and other Fed officials, who have argued that while the benefits of the Fed's bond-buying programs may not be large, the costs are small and manageable.

Mr. Bernanke also has urged Congress and the White House to avoid near-term tax increases or spending cuts that would hurt economic growth, while addressing long-term deficits.

Mr. Summers's public statements also suggest he would support the Fed's public commitment, first made in December, to keep short-term interest rates low until the unemployment rate drops to 6.5% or lower.

Nine months before that public declaration by the Fed, Mr. Summers had advocated such a stance. "It might be appropriate for the Federal Reserve to commit to maintain the current fed funds rate until some threshold with respect to unemployment or expected inflation is crossed," he wrote in the Financial Times and Washington Post. The fed funds rate is the rate at which banks lend to each other overnight.

The race to lead the Fed has heated up in recent weeks. Mr. Bernanke's term as chairman ends in January, and he isn't believed to be seeking reappointment. President Barack Obama has said he has narrowed the list of candidates for the job, though the White House said last week that a decision won't come until the fall at the earliest. Republicans have doubts about both candidates, in part because they worry that the easy-money tilt among Democrats causes inflation and asset bubbles.

Ms. Yellen, who has been at the Fed for the past nine years, has been an advocate both inside and outside the Fed of the central bank's aggressive response to the financial crisis and subsequent slow recovery, though she hasn't given a public speech since early June. Her tenure at the Fed leaves her with a substantial record of speeches and decisions on monetary policy. She is widely regarded as a "dove," shorthand in financial markets for a central banker in favor of easy-money policies to reduce unemployment and less worried about inflation.

In his time atop the Treasury in the Clinton years and in the White House economic-policy circle more recently, Mr. Summers largely avoided public commentary on the Fed, as is the custom. Since returning in 2011 as a professor to Harvard University, where he was formerly president, he has occasionally spoken and written about the central bank.

"The general opinion seems to be that Summers would be somewhat less dovish than Yellen," Michael Feroli, an economist at J.P. Morgan, told clients this week.

In a column published in the Financial Times and Washington Post in June 2012, as the global economy softened, Mr. Summers said a new round of bond buying "may be appropriate given that there is a much greater danger from underreacting to current economic weakness than from overreacting to it." But again he added a clear dose of skepticism, saying "one has to wonder" how much more investment businesses would undertake if the Fed pushed already low long-term interest rates down another quarter or half percentage point. The Fed launched a mortgage-bond-buying program that September and extended Treasury bond buying a few months later.

In a breakfast interview last month with The Wall Street Journal and other reporters, Mr. Summers said that the government risks creating asset bubbles if it relies too heavily on low interest rates to boost economic growth. "If you rely more on monetary policy, you're going to have more liquidity and lower rates," he said. "That is going to be an environment that's going to increase the risk of bubbles."

Mr. Summers has said, both at the Drobny conference and in the Journal interview, that the fiscal squeeze on the economy from higher taxes and spending cuts should diminish this year, which could lead to a pickup in economic growth.

Both Ms. Yellen and Mr. Summers have expressed support for using more tax cuts and spending increases—and, perhaps, less monetary policy—to bolster economic growth in current circumstances.

"Larry Summers believes that less fiscal austerity is the low-hanging fruit on stabilization and full-employment policy right now," said Brad Delong, a professor at the University of California at Berkeley, where Ms. Yellen used to teach, and Mr. Summers's co-author on a 2012 paper fiscal policy in a depressed economy.

As an academic in 1990, Mr. Summers co-wrote research that argued for the importance of keeping central banks independent from elected politicians. Most of his academic work focused on a range of subjects other than monetary policy, including unemployment, tax policy and stock-market behavior.

Mr. Summers is close to White House officials, who see him as a smart economist with global stature and financial-crisis experience from previous stints in presidential administrations. A group of Senate Democrats has endorsed Ms. Yellen, who has a long Fed track record and would be the first woman in the nation's top economic position.

Mr. Summers has been criticized on both sides of the aisle for his close ties to Wall Street. The Journal reported last week he has done consulting for Citigroup Inc., a bank regulated by the Fed, among other financial firms since leaving the White House.

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