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ECONOMY | CENTRAL BANKS

Former Fed Chief Yellen Offers a Warning to Trump's Latest Central Bank Picks

'A couple of individuals will find it difficult who come with a political view, to have a great deal of influence'



Former Fed Chairwoman Janet Yellen in Singapore in November. PHOTO: JUSTIN CHIN/BLOOMBERG NEWS

By Michael S. Derby

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Former Federal Reserve Chairwoman Janet Yellen sent an indirect warning to two potential Trump central bank picks, saying if they want to be relevant, they will need to check their politics at the door before entering the institution.

"Individuals will find it difficult, a couple of individuals will find it difficult who come with a political view, to have a great deal of influence," Ms. Yellen said Wednesday at an event held at the Houston branch of the Dallas Fed. The event was moderated by Dallas Fed President Robert Kaplan.

Ms. Yellen spoke as President Trump weighs nominating to the Fed two men who would be his allies on the central bank's independent board.

Stephen Moore is a conservative activist who once argued against the Fed's easy money policies before Mr. Trump was president, only to flip those views and call for rate cuts. The other potential nominee is former restaurant executive Herman Cain, who abandoned a presidential bid in late 2011 amid accusations of sexual harassment. Both men have argued that the Fed should return to the gold standard, a view that lies well outside of the mainstream and is in opposition to Mr. Trump's desire for easier monetary policy.

A broad array of observers on the left and right have been concerned by the potential nominations. They fear that Mr. Moore and Mr. Cain won't hew to the nonpolitical stance adopted by current Fed officials. Senate Republicans have expressed concern about Mr. Cain's nomination.

Ms. Yellen reiterated that the Fed, while it works to achieve goals set by Congress, functions best when it can independently pursue those aims, free of political interference. Ms. Yellen didn't mention Messrs. Cain or Moore by name.

"Given the culture of the [Federal Open Market Committee], what individuals would find who joined the committee is that the discussion is based on facts, analysis, and disciplined discussion and analysis of options, and people push one another," Ms. Yellen said. "It's a polite conversation, but people listen carefully to what other people say, and if the arguments that people make and the evidence they bring to bear are not well grounded and thoughtful, over time people sitting around that table will challenge their colleagues on the relevance and appropriateness of what's said."

Ms. Yellen also said the Senate, which confirms Fed nominees, has a critical role to play.

"It's a president's right to nominate people to the Fed board and the Senate's obligation to carefully review and judge their qualifications, and I would hope very much the Senate would take that responsibility very seriously, to put qualified individuals on the Board of Governors who can make a contribution and respect the independence of the Fed as an organization," Ms. Yellen said.

The former Fed leader also stressed that having unique views isn't bad. "Having a range of views in a committee is a healthy thing. You don't want to have group think" when crafting central-bank policy.

Ms. Yellen also expressed support for the Fed's current decision to take a pause on monetary policy. After a series of rate rises, the Fed, concerned about a mixed range of data, a slowing global economy, tighter financial conditions and a rise in economic uncertainty, signaled that it doesn't expect to raise rates this year.

“Monetary policy is well positioned” right now, Ms. Yellen said. “There are a lot of uncertainties on the up and downside” and now is a good time to hold steady and see how things play out, she said.

Ms. Yellen said the job market is very strong and she sees little chance the Fed will exceed its 2% inflation target. “Maybe at some future point you might decide its appropriate” to lower rates, but “I wouldn’t see that as appropriate at this point.”

Ms. Yellen also expressed some concern about current Fed efforts to rejigger some of the regulations put in place in the wake of the financial crisis. She said she’s not opposed to tweaking some of the rules and “trying to refine them so they are less burdensome and remedy unintended consequences.” But without getting into specifics, she said of the rollback that “in some places, things have gone too far.”

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