

HUFFPOST POLITICS

Summers' End

Robert Kuttner: 09/15/2013

Larry Summers is out. But who is in?

On Sunday afternoon, Administration sources leaked to the *Wall Street Journal* an exchange of letters between Summers and President Obama. Summers wrote: "I have reluctantly concluded that any possible confirmation process for me would be acrimonious and would not serve the interest of the Federal Reserve, the Administration or, ultimately, the interests of the nation's ongoing economic recovery."

Obama, in reply, praised Summers as "a critical member of my team as we faced down the worst economic crisis since the Great Depression, and it was in no small part because of his expertise, wisdom, and leadership that we wrestled the economy back to growth and made the kind of progress we are seeing today."

But behind the polite exchange, a frantic politics was at work. In such circumstances, at some point the political team realizes that a nomination is a lost cause, word is passed to the prospective nominee that it's over, and a gracious exchange of letters is drafted. It's hard to believe Larry Summers, of all people, voluntarily falling on his sword for the greater good.

This past week, a fourth skeptical Democratic member of the Senate Banking Committee, Sen. Jon Tester of Montana, made clear that he would not support Summers; Republican opposition mounted; Joseph Stiglitz published a devastating bill of particulars in the *New York Times* online; and the Times itself ran a scathing editorial.

A prestigious group of over 350 economists sent a letter to the White House urging the appointment of Fed Vice Chair Janet Yellen and not Summers. All of this gave a preview of an explosive confirmation hearing.

Meanwhile, the president and his allies in Congress have a looming government shutdown to prevent, and the last thing they need is a nomination that was becoming more contentious by the day. Well-placed sources say Summers met with Senator Elizabeth Warren on Friday to see if he could enlist her support, and Warren declined. That was probably the coup de grace.

Looking backwards at this debacle, it's clear that Obama's economic team did not serve him well, either substantively or tactically. Summers as chair of the Fed was always going to be a lightning rod, because of his temperament, his sketchy record as president of Harvard, his

close association with the deregulation that invited the financial collapse, and the high-profile consulting gigs on Wall Street that he took since leaving government in 2010.

Tactically, what unfolded in August and September was bizarre. Instead of the administration vetting Summers for hidden confirmation problems, deciding that he was an acceptable risk, and Obama announcing the appointment, what we got was a slow drip of leaks that Summers was the president's first choice. But that only served to rally Summers' opposition. It would have been much more difficult for opposition within the Democratic Party to fester if Obama had simply announced his choice.

Looking backward, it's clear that Obama was not quite convinced. He was ambivalent about Summers, just as he was ambivalent about attacking Syria. Letting the pro-Summers leaks proceed was his way of splitting the difference between his own qualms and the advice of his senior economic staff.

Often overlooked is the fact that Summers and his close ally Robert Rubin pressed Obama to appoint Summers to chair the Fed when Ben Bernanke's first term expired in 2011 -- but Obama stuck with Bernanke; and that Summers made a serious run at being president of the World Bank in 2012, but again Obama passed on Summers and appointed Dartmouth President and public health expert Jim Yong Kim.

With opposition to Summers mounting, Obama even took the unusual step of calling in a group of journalists and bloggers for a background session indicating that Summers was still his first choice. The White House tried to create a politics of inevitability, but the opposition kept growing.

Because of the several weeks of clumsy leaks and Obama's personal association with Summers, now the president doesn't have the usual deniability that comes when a trial balloon is shot down. He is personally associated with a flawed and failed nomination.

What now? Fed Vice Chair Janet Yellen is the most qualified candidate, the prospective first woman Fed chair, and a favorite of Democratic progressives. But the same senior economic advisers and their Wall Street advisers who led Obama down the garden path on Summers are mounting a last-ditch anybody-but-Yellen effort.

Supposedly, Obama looked weak when he failed to stand by Summers and he will look even weaker if he is browbeaten by Yellen admirers into giving her the appointment. But if Obama's economic team prevails on that advice, they will be compounding one serious disservice with another.

Among the other names being floated are former Fed Vice Chair Don Kohn, now retired, another former Fed Vice Chair Roger Ferguson, currently CEO of TIAA-CREF (who is African American), and former Treasury Secretary Tim Geithner, who reportedly doesn't

want the job. Obama's advisers have also been beating the bushes for presentable women. Among the people mentioned are Sheryl Sandberg, chief operating officer of Facebook and yet another close protégé of Robert Rubin, and Lael Brainard, the undersecretary of the Treasury for International Affairs (neither of whom has Fed experience).

The problem with these people is that they all represent ways of passing over the exceptionally qualified Yellen. In her service as vice-chair of the Fed, and before that as president of the San Francisco Federal Reserve Bank, as a governor of the Fed, and as chair of President Clinton's Council of Economic Advisers, Yellen has been superb. Were it not for the failed attempt to install Summers, Yellen is the logical choice to succeed Bernanke. The fact that she is a woman is another plus, but she is also simply the most qualified candidate.

It also happens that Yellen has been outspoken on the need to target a lower unemployment rate, a goal that serves the nation and the Obama Administration. Yellen has already been confirmed to her present post. There is nothing in her record that would produce a contentious hearing other than predictable and contained opposition from rightwing Republicans. (In July 2010, the Senate Banking Committee voted to conform her, 17-6.)

Uncertainty is said to be bad for the economy. A second round of protracted uncertainty about who will be the next chair is not good either for the recovery or for the administration. President Obama should put a swift end to this interregnum by appointing Janet Yellen.

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