

## Summers For Fed Chair

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In the next month or two, President Obama will pick someone to succeed Ben Bernanke at the Federal Reserve. At this point, we think the odds-on favorite is Larry Summers.

If it was our pick, we would be talking to John Taylor or Glenn Hubbard, but it's not, so given the president's "short list," we think Summers makes the most sense. We just hope our saying so publicly doesn't hurt his chances. If you happen to have a friend at the White House, please feel free not to send this endorsement along.

There have only been two changes at the helm of the Fed in the past 26 years, from Volcker to Greenspan in 1987 and Greenspan to Bernanke in 2006. During that same time period, we've had five presidents. In other words, this is a big deal.

What's fascinating, at least to us, is that every Fed chairman in the past three decades has made his mark as a contrast to the prior chairman. Volcker became a national monetary hero in the 1980s by slaying the inflation dragon unleashed by Arthur Burns in the 1970s. Greenspan eventually returned to easier money and caused a housing bubble with 1% interest rates. Bernanke made his name dealing with the housing bust and implementing quantitative easing. He is now trying to start tapering so history will show he did unprecedented things to "save the world," but then set the central bank back on a path to normalization.

If the president elevates current Fed Vice-Chair Janet Yellen, the odds of normalizing policy probably go down and the odds of stagflation have to go up. Yellen is a talented, smart, and experienced candidate, but so was Arthur Burns, President Nixon's Fed chief whose policies generated double-digit inflation. Yellen is more likely to risk persistently higher inflation by trying to use easy money to bring down unemployment.

This is important given the expansion of government transfer spending in the past several years, which should raise the typical, or average, unemployment rate in the US. We also note that some at the Fed already appear willing to lower the threshold 6.5% jobless rate for which the Fed says it's waiting before it considers raising rates.

By contrast, Summers seems more willing take on politically-correct sacred cows – he actually required professors to teach substantively rigorous courses when he was president of Harvard. We agree with his doubts about the efficacy of QE, and we think he is more willing to resist the inevitable political pressure to keep monetary policy too loose.

Other names have also come up. Donald Kohn, a long-serving senior staffer at the Fed under Greenspan, is one. Some mention former Treasury Secretary Tim Geithner. Both are capable, but Kohn has no experience running large institutions and Geithner would be a political choice, not one based on a deep knowledge of the role of monetary policy in the economy.

In the end, we think Obama picks Summers. And although some Senate Democrats and a couple Senate Republicans have tried to stop it, we think, in the end, they will not vigorously oppose a presidential nominee whose only fault is supposedly "not playing well with others." These Senators want something, and are just preparing the ground for a deal to get something they want in the future.

Like we said, Taylor or Hubbard would be our choice, but given the current environment, Summers is the most likely choice for President Obama. Those who support free markets will find him an intelligent and, in time, forceful ally on issues like entitlement reform and even tax reform. Moreover, we think he will continue to taper and then end QE.

Now, we just hope we didn't sink his nomination.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
8-26 / 7:30 am	Durable Goods – Jul	-4.0%	<b>-5.5%</b>	-7.3%	+3.9%
7:30 am	Durable Goods (Ex-Trans) – Jul	+0.5%	<b>+0.1%</b>	-0.6%	-0.1%
8-27 / 9:00 am	Consumer Confidence – Aug	79.0	<b>78.6</b>		80.3
8-29 / 7:30 am	Initial Claims – Aug 24	330K	<b>333K</b>		336K
7:30 am	Q2 GDP Preliminary Report	2.2%	<b>2.3%</b>		1.7%
7:30 am	Q2 GDP Chain Price Index	0.7%	<b>0.7%</b>		0.7%
8-30 / 7:30 am	Personal Income – Jul	+0.2%	<b>+0.1%</b>		+0.3%
7:30 am	Personal Spending – Jul	+0.3%	<b>+0.3%</b>		+0.5%
8:45 am	Chicago PMI	53.0	<b>53.4</b>		52.3
8:55 am	U. Mich Consumer Sentiment- Aug	80.5	<b>80.0</b>		80.0