

# Who *Should* Be the Next Fed Chairman?

*Over the next several years, commentators will speculate on the identity of the next Chairman of the Federal Reserve Board of Governors once Alan Greenspan's tenure ends in 2006. Instead of speculation centered on who is likely to be next, perhaps the initial question should relate to who should assume the post many describe today as "central banker to the world"?*

## **TIE ASKED DOZENS OF EXPERTS**

**Among those mentioned as possible replacements:\***



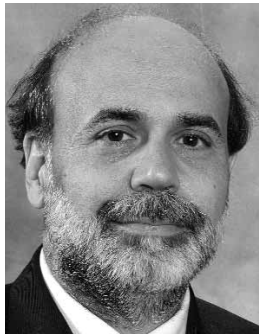
**Bob Rubin**



**Martin Feldstein**



**Larry Summers**



**Ben Bernanke**



**William McDonough**



**Joseph Stiglitz**



**Lawrence B. Lindsey**



**Robert McTeer**



**Janet Yellen**



**Glen Hubbard**



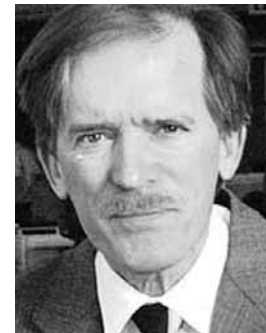
**David Malpass**



**Robert Barro**

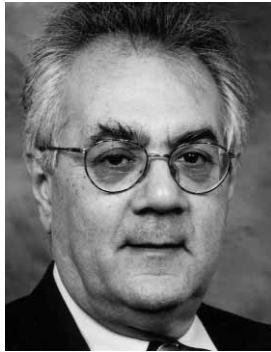


**Ian Macfarlane**



**Bill Gross**

\*Note: Selections made prior to November 2 U.S. presidential election.



**BARNEY FRANK**  
*Member, U.S. House of Representatives, and senior Democrat on the Financial Services Committee*



**GEORGE SOROS**  
*Chairman, Soros Fund Management*

If John Kerry is elected President, I will urge strongly the appointment of Nobel Prize winner **Joseph Stiglitz** to chair the Fed. That position has become the single most influential office affecting national economic policy, and Stiglitz's commitment to and understanding of the importance of combining economic growth with a concern for economic fairness are sorely needed. Given the increasing role that globalization plays, his international experience is also a great asset.

**Bob Rubin** is by far the most qualified.



**STEVE FORBES**  
*President and CEO, Forbes, Inc.*



**SAMUEL BRITTAN**  
*Columnist, Financial Times*

**David Malpass**, chief global economist at Bear Stearns. He understands monetary policy—that the principal goal should be a stable dollar. No inflation, no deflation, just flatation. He understands how commodity prices as a whole, and gold in particular, are good barometers of monetary disturbances. He got it right on the Fed's deflation of the late 1990s and early 21st century, and he also has it right today concerning the Fed's mild inflationary course.

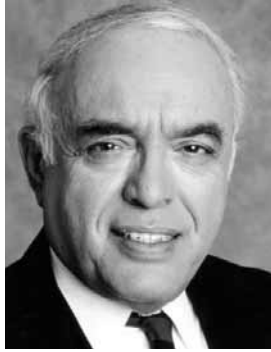
My first preference for the next Chairman of the Fed is **Alan Greenspan!** I am not a born hero worshipper and do not regard him as infallible. He has made his share of mistakes, in particular in relation to the high-tech boom of the late 1990s. But I do not see anyone on the horizon who excels him or is even his equal.

Another individual to consider is **Robert McTeer**, president of the Federal Reserve Bank of Dallas. He, too, has a grasp of monetary policy that surpasses that of his peers.

Of course he will be eighty in 2006. But if the trend toward increased longevity and better health means anything at all, there is a sporting chance that he will still be up to the job. If he is able and willing I would reappoint him after an independent health check. In many countries elderly car drivers are subject to a regular routine health check. Why should not the same apply to central bankers?

If he is unavailable, my choice would be between **Ben Bernanke** who seems from over here the most analytical and articulate member of the FOMC, and **Kenneth Rogoff**, until recently chief economist of the International Monetary Fund. Rogoff wins by a short head, mainly because he is an outsider and has established a reputation for plain speaking, for instance about the U.S. payments deficit.

As a long shot why not consider a real outsider such as **Ian Macfarlane**, the governor of the Reserve Bank of Australia?



**ROBERT NOVAK**  
*Syndicated Columnist*

**T**here is only one logical choice to replace Dr. Greenspan: **Manuel H. Johnson**, who served as vice Chairman of the Federal Reserve from 1986 to 1990. Prior to joining the central bank, he was a Treasury official for the first six years of the Reagan Administration.

Johnson's background is unique: professor of economics, Reaganite supply-sider and tax reformer, prudent central banker, successful private-sector consultant. It is not just that Manley Johnson knows everybody in the international world of finance. He is an innovative but prudent monetary theorist who can be counted on to avoid the impulsive lunges that have marred Fed policy in the past. He understands that growth and price stability are not antithetical.



**BARRY EICHENGREEN**  
*Professor of Economics and Political Science at University of California-Berkeley*

**I**would like to be the only contributor to this forum who does not mention a name. Too much attention is paid, in my view, to the identity of the Chairman relative to the board's mandate and operating procedures. We would all be better off if less of the Fed's credibility derived from the identity of the putative figurehead, since personality cults can wax and wane. (Anyone familiar with Mr. Greenspan's entire reign will be aware of this point.) Better would be for the Fed to adopt more of the formal apparatus of inflation targeting: an explicit inflation target, a publicly announced inflation forecast, and an inflation report to the Administration and the Congress

describing its operating procedures. If it did so, confidence in monetary policy would no longer hinge on the health and good press of any one individual.

Okay, I will succumb to the temptation to mention a name, that of my Berkeley colleague (and San Francisco Fed Chief) **Janet Yellen**.



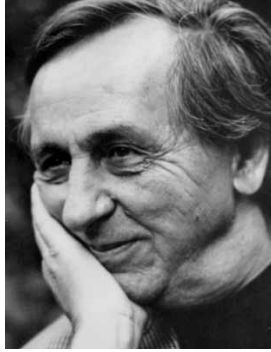
**SUSAN M. PHILLIPS**  
*Dean and Professor of Finance, George Washington University School of Business; and Member, Board of Governors, U.S. Federal Reserve System, 1991-98*

**T**he Federal Reserve chairmanship is attractive not only because the Fed plays an integral role in the global financial system, but because Chairman Greenspan has been so effective in building the Fed as an institution. While the next Chairman has big shoes to fill, there are plenty of qualified candidates.

I am resisting naming my favorites. But I will share some observations about the position. Diplomacy is required for dealing with the Administration and Congress, other Fed governors, regional bank presidents, and senior staff, not to mention other central bankers, finance ministers and corporate CEOs. Consensus building requires patience to operate, much less lead, in these circles and mastery of effective communication is an evolving challenge.

The Fed's responsibilities are numerous—not just confined to monetary policy. Like any executive, the Chairman must choose what to control directly and what to delegate and to whom. The breadth of central bank material to be generated, reviewed, and mastered is staggering. Every issue has a history with detailed statistics and economic analyses developed by Fed economists in Washington or one of the twelve banks. Simply put, a Fed Chairman must enjoy engaging in economic studies and data.

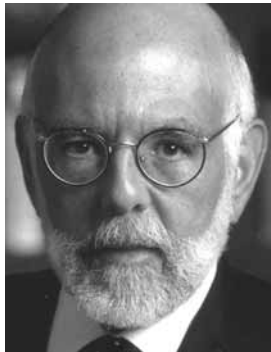
The rich pool of candidates includes current and former Fed governors and presidents as well as people from government, the private sector, and academia. This is not simply a function of economic Ph.D. or M.B.A. production. Rather, Chairman Greenspan has made the position and Fed itself respected, influential, and interesting—an impressive legacy for sure.



**BILL GREIDER**  
*National Correspondent,*  
*The Nation*

**G**iven the dicey circumstances ahead, our low-grade depression economy, and the horrendous indebtedness to trading partners, the country needs someone astute about global finance and tough-minded but, above all, public-spirited. Don't hold your breath. That standard should rule out Harvard economists, both Feldstein and Summers. Robert Rubin will be asked, if Kerry wins, but surely the criminal abuses of the firm he runs (Citigroup) render him ineligible.

My pick is **Bill Gross**, managing partner at PIMCO. He has a great mind for global complexities and sees the deeper economic trendlines before the crowd. He knows how to do the numbers, but doesn't get intimidated by economists. Once in awhile, he even delivers bad news to his customers, the bondholders.



**FRANK PEARL**  
*Chairman & CEO,*  
*Perseus, L.L.C.*

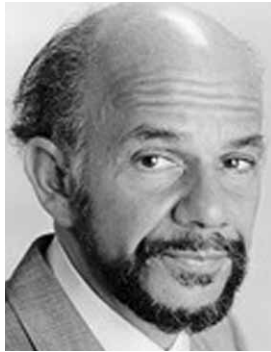
I will not be so presumptuous as to offer an individual preference for the next Federal Reserve Chairman; but I will suggest several policy views that I believe must be held by the next Fed Chairman. First, he or she must be someone who recognizes the significance of the inexorable increase in our current account deficit, climbing perhaps through 6 percent of GDP and beyond. The late Rudiger Dornbusch once observed, "Things always take longer to happen than you expect but when they happen, they happen faster." Ernest Hemingway in *The Sun Also Rises* also put it succinctly: "How did

you go bankrupt?" Bill asked. "Two ways," Mike said. "Gradually and then suddenly." This will very likely be the case with respect to the readjustment of the value of the dollar and the resultant potential repatriation of dollars which will further exacerbate the situation. Although it is probable that the Japanese and Chinese governments will be smart enough to understand the potential danger of significant dollar sales, private Japanese and other investors as well as the over eight thousand existing hedge funds are likely to exaggerate the slope of the decline. We have been fortunate so far that the dollar decline has been orderly, but the next Fed Chairman must be exquisitely sensitive to effectively managing a dollar decline.

Second, the next Fed governor must be willing to speak out vigorously, without regard to temporal political consequences, with respect to our enormous budget deficits. In my view, there is little prospect for growing our way out of these deficits particularly during a period when defense spending will likely remain quite high for years; thus rigor on both sides of the fiscal equation is a requisite. Neither Republican nor Democratic administrations will ever be entirely comfortable with the tax increases and spending reductions necessary to consistently manage our nation's finances responsibly, and hence the next Fed Chairman must be willing to use that particular bully pulpit to make the President and Congress squirm on this issue.

Third, I would suggest that the next Fed Chairman must be someone who understands the likelihood of long-term high energy prices and the resultant inflationary and geopolitical consequences. An extended period of high oil and natural gas prices will make the double deficit far more difficult to control, and the short-term solutions or "see no evil" approaches of previous administrations will no longer ameliorate the problem. Longer-term solutions involving the application of newer technologies, emphasis on conservation, including quite possibly fossil fuel or BTU tax incentives will be necessary until new generations of energy-producing technologies that are less reliant on fossil fuels become mature. This will not happen in five or ten years.

And finally, the next Fed Chairman will need to be particularly cognizant of the fact that we Americans are no longer able to insulate ourselves from the geopolitical dynamics which are likely to involve high risk of disruption of the patterns of safety, transportation, market function and trade to which we have become accustomed.



**MELVYN KRAUSS**  
*William L. Clayton Senior  
Fellow, Hoover Institution*



**NORBERT WALTER**  
*Chief Economist,  
Deutsche Bank Group*

If George Bush gets reelected, I would recommend **Martin Feldstein** be appointed Fed Chairman. The reason is that Feldstein is an outstanding economist. One doesn't need to be a narrow monetary specialist to do well in the job as Alan Greenspan has proven. Another reason for supporting Feldstein is that he has proven himself to be politically independent in other government positions that he has held.

My second choice would be **Robert Barro** of Harvard University and the Hoover Institution at Stanford. Dr. Barro is a brilliant economist but perhaps lacks the political skills of Martin Feldstein.

If John Kerry should be elected president, then my choice would be **Lawrence Summers**. Summers has shown himself to be a brilliant economist and has considerable experience in government service. I have confidence that his tenure as president of Harvard University has moderated certain partisan instincts that were evident in his previous service. I therefore trust that he would be politically independent.



**SYLVIA OSTRY**  
*Distinguished Research  
Fellow, Centre for  
International Studies,  
University of Toronto*

The next Chairman of the Federal Reserve Board of Governors should be **Lawrence Summers**. His expertise and experience would make him a fine "central banker to the world."

Rarely has a central banker ever been as central to the fate of financial markets as was—and is—Alan Greenspan. He towered over the 1990s, the new economy, Congress, the presidents. Markets have until now basically bought his view.

While this has helped to avoid less favorable developments, the final verdict on his performance has yet to be reached. The permissive creation of liquidity and the build-up of an unsustainable net foreign debt position by the United States will weigh heavily on what his successor is going to be able to achieve. After Alan Greenspan, the only option is monetary rectitude, i.e., soaking up excess liquidity.

Thus, **Martin Feldstein**, his successor, will have to fight an uphill battle. He will have to convince U.S. citizens of the importance of interest rates' reflecting underlying scarcities, i.e., to be higher than today, and he will have to pursue policies to avoid the dollar falling off the cliff.

Under such circumstances, Jean-Claude Trichet will easily rise to great stature, as will the euro. After the titan Greenspan, a more vulnerable Fed Chairman will have to work side by side with a second-term President George W. Bush, forced to bail himself out of the economic policy mess he created in his first term.

**PETER GERHARD**  
*Managing Director, Goldman Sachs*

This is an easy question for me as I've had the pleasure of working closely with Wall Street's most respected U.S. economist, **Bill Dudley**.

Bill began his career at the Fed so the "full circle" cliché is attractive. For the past several years, Bill has been widely followed by the press. In public, he comes off very confident, calm, and thoughtful (just like in real life). Bill is the consummate professional and while his political affiliation "leans Democratic," he is fair in his analysis and gives credit where credit is due.

Bill does not have an agenda and I'm sure he would be somewhat embarrassed by his nomination. When I think of who could fill the shoes of Chairman Greenspan, Bill Dudley tops my list by a considerable margin.



**BARTON BIGGS**  
*Managing Partner,  
Traxis Partners*

**M**y choice by the proverbial country mile would be **Bob Rubin** regardless of who wins the election. The Chairman of the Fed must know markets and no one knows them better than Rubin. He must have credibility in the international stratosphere of central bankers, economists, and finance ministers which Rubin has, and he should have some experience with the subtleties of operating at that level. Again Rubin has been there. And he also has to know his way around Washington and the Congress.

Finally and most importantly, the Chairman of the Fed must know how the world and the international monetary system works and there are only about fifty people in the world that do. I am convinced Rubin is one of them. Whether he would take the job is another question.



**L. WILLIAM SEIDMAN**  
*Chief Commentator of  
CNBC-TV*

**F**or Fed Chair: **Larry Lindsey**. The Administration owes him the job based on firing him for being right! Besides, he's smart, sound, and very good at economic forecasting. He will never agree to a British lordship.



**MANUEL JOHNSON**  
*Former Vice Chairman,  
Federal Reserve*

**I**t is a little difficult to focus entirely on who should be the next Fed Chairman independent of the political realities involved with the actual decision. So my suggestions take into account both monetary policy qualifications and politics. On the Democratic side, three easy choices would be **Bob Rubin**, **Larry Summers**, or **Bill McDonough**. Rubin is well equipped to run the Fed and has the strongest political base, but his Democratic party activism might also make him a little too politically involved for the Fed Chair. Summers has the strongest intellectual background and clearly knows monetary policy backward and forward. However, he has never been known for exceptional skill in collegiality.

While I list McDonough on the Democratic side it is also possible that he could be acceptable for Republicans as well. Not only does he have lengthy experience in the Fed system but also his career has mostly been advanced by Republican supporters who have trusted his conservatively pragmatic policy instincts and people skills.

Though he is without a political base, **Ben Bernanke** would be a strong intellectual candidate on the Republican side. He has very credibly championed the case for an inflation targeting monetary policy at the Fed. Bernanke is well respected inside the Fed system and understands the importance of collegial decision making at the institution.

**Martin Feldstein** would also be an important Republican candidate for Fed Chair. Feldstein certainly knows the issues relating to monetary policy, and he has also been a strong proponent of both tax and social security reforms similar to those voiced by President Bush. It would not hurt for the White House to have an advocate for its policy agenda heading up the Fed. Along similar lines, **Larry Lindsey** is a former Fed governor and also one of the best minds in fiscal policy in the United States.

Finally, **Glen Hubbard** might also be a strong Republican candidate for the top Fed job. He served President Bush well as CEA Chairman and seemed to have the confidence of key people in the White House during development of the Administration's fiscal policies.