Lawrence Summers withdraws from consideration for Fed chairman

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18 September 2013

Former US Treasury Secretary Lawrence Summers on Sunday informed President Barack Obama that he was withdrawing his name from consideration as the replacement for Ben Bernanke, who will retire on January 1 as chairman of the US Federal Reserve Board. Summers' withdrawal is believed to increase the likelihood that the current Fed Vice-Chairman, Janet Yellen, will receive the nomination.

Stock markets around the world responded to news of Summers' withdrawal by staging a rally, with the Dow rising by more than 180 points over the past two days. Summers, treasury secretary under Bill Clinton and director of the White House's National Economic Council during Obama's first term, was broadly opposed by Wall Street despite his long record in support of financial deregulation and the interests of the financial elite. The main reason was his perceived inclination to pull back more rapidly on the Federal Reserve's policy of pumping tens of billions of dollars a month into the financial markets than his chief rival, Yellen.

Summers' withdrawal sends a strong signal to Wall Street that there will be no abrupt cessation of the $85 billion in asset purchases by the Federal Reserve every month, even though there is a broad expectation that the Fed will begin gradually reducing, or "tapering," its money-printing operation, dubbed "quantitative easing," as early as this month.

Yellen was previously the president of the San Francisco Fed. Prior to that, she was chairperson of the White House Council of Economic Advisers under Clinton. Within the narrow and right-wing framework of official economic policy, she is considered a semi-Keynesian, more inclined to modest financial regulation than more doctrinaire "free market" advocates such as Summers, Summers' mentor Robert Rubin, and former Fed Chairman Alan Greenspan.

As vice-chair of the Federal Reserve beginning in 2010, Yellen has been an outspoken proponent of accommodative monetary policy and played a leading role in developing and promoting the Fed's quantitative easing program.

Under Clinton in the late 1990s, Summers worked with Greenspan and Rubin, Clinton's treasury secretary before Summers took over the post, to complete the deregulation of the banks, fueling the dot.com bubble and helping to create the conditions for the subprime mortgage bubble that burst in 2007 and led to the financial collapse of 2008.

Summers vociferously opposed any regulation of derivatives and was instrumental in the final repeal of the Depression-era Glass-Steagall Act, which barred deposit-taking commercial banks from engaging in speculative investment banking.

In his letter to Obama, Summers wrote, "I have reluctantly concluded than any possible confirmation process for me would be acrimonious and would not serve the interests of the Federal Reserve, the administration, or, ultimately, the interests of the nation's ongoing economic recovery."

Even though Summers had the support of the White House, many congressional Democrats, especially on the Senate Banking Committee, which must approve the nominee for Fed chairman before a vote on the Senate floor can he held, were firmly on the side of Yellen. In July, twenty of the 54 Democrats in the Senate signed a letter urging Obama to select Yellen, without mentioning Summers.

The *New York Times* reported that five of the twelve Democrats on the Senate Banking Committee indicated Friday that they intended to vote against Summers. These included Oregon's Jeff Merkley, Ohio's Sherrod

Brown, Massachusetts' Elizabeth Warren, North Dakota's Heidi Heitkamp and Jon Tester of Montana. The defection of these Democrats all but assured that Summers' nomination would be blocked on the Banking Committee, delivering the Obama administration a severe political blow.

Yellen's congressional supporters responded to Summers' resignation with enthusiasm, with Senator Warren saying, "Janet Yellen, I hope, will make a terrific Federal Reserve chair."

The convergence of the supposed "liberal" wing of the Democratic Party with Wall Street over the Fed nomination underscores the absence of any genuine opposition to Wall Street within either of the two major political parties. The "liberals" disguised their support for continued infusions of virtually free credit to the banks as support for women's rights, emphasizing that Yellen would become the first female Fed chairperson.

They also pointed, either openly or by allusion, to Summers' politically embarrassing 2001-2006 tenure as president of Harvard University. In that post, he famously clashed with Cornell West, a prominent professor of African American Studies.

In January 2005, he delivered a speech at a conference on workforce diversity in which he hinted that the under-representation of women in science and engineering was attributable to differences in "intrinsic aptitude," describing "socialization and continuing discrimination" as "lesser factors." This led to his denunciation by significant sections of the faculty, which ultimately forced him to resign as president.

The fact that Yellen has emerged as the bankers' favorite over Summers, a proven opponent of financial regulation and defender of Wall Street, reflects the degree to which the financial system has become dependent on continuous infusions of government cash to underwrite profits and soaring executive pay, and attempt to postpone a new financial crash in the absence of a genuine economic recovery.