Federal Reserve Board Oral History Project

Interview with

Janet L. Yellen

Former Chair, Board of Governors of the Federal Reserve System

Date: January 3, 2012

Location: Washington, D.C.

Interviewers: Winthrop P. Hambley and David H. Small

Federal Reserve Board Oral History Project

In connection with the centennial anniversary of the Federal Reserve in 2013, the Board undertook an oral history project to collect personal recollections of a range of former Governors and senior staff members, including their background and education before working at the Board; important economic, monetary policy, and regulatory developments during their careers; and impressions of the institution's culture.

Following the interview, each participant was given the opportunity to edit and revise the transcript. In some cases, the Board staff also removed confidential FOMC and Board material in accordance with records retention and disposition schedules covering FOMC and Board records that were approved by the National Archives and Records Administration.

Note that the views of the participants and interviewers are their own and are not in any way approved or endorsed by the Board of Governors of the Federal Reserve System. Because the conversations are based on personal recollections, they may include misstatements and errors.

Contents

MR. HAMBLEY. Today is Tuesday, January 3, 2012. We are interviewing the Board's Vice Chair, Janet Yellen, as part of the Federal Reserve Board's Oral History Project. Janet Yellen served on the Board from August 12, 1994, to February 17, 1997. She returned as Vice Chair on October 4, 2010, to the present. [This interview took place when Janet Yellen was serving as Vice Chair of the Board of Governors of the Federal Reserve System. She served as Chair of the Federal Reserve Board from February 2014 until February 2018.]

I am Winthrop Hambley, a senior adviser in the Office of Board Members, and I'm joined by Dave Small of the FOMC (Federal Open Market Committee) Secretariat in the Division of Monetary Affairs. The interview is taking place at the Board of Governors in Washington, D.C.

Vice Chair Yellen, thank you very much for agreeing to this interview.

MS. YELLEN. My pleasure.

Personal, Educational, and Professional Background

MR. HAMBLEY. Could you begin by telling us about your early life and education?

MS. YELLEN. I grew up in Brooklyn. My father was a family doctor whose office was located in our house. I attended public school, P.S. 102 in Bay Ridge, and Fort Hamilton High School. I ended up going to Brown University as an undergraduate, which is where I developed an interest in economics. Initially in college I intended to major in math, which I always liked, but eventually I settled on economics, which uses a heavy dose of mathematical reasoning and modeling.

In thinking about how I became interested in economics, perhaps my mother had an influence. My mother was very interested in the stock market and economics, although, to the best of my knowledge, she never studied the subject formally. But she did manage our family finances, was an avid reader of the business press, and was someone who gave advice on investing to everyone in the family. She may be the person who stimulated my interest in the field.

MR. HAMBLEY. Do you remember conversations with her about the stock market or about the economy?

MS. YELLEN. We had many conversations about the stock market and the economy. That was a long-standing interest of hers. We used to debate questions in thinking about whether or not to sell a stock, whether or not you should pay any attention to the price you paid for the stock, and whether or not you were making capital gains or capital losses. My view, which I argued vigorously with her, was that history and what you paid were fundamentally irrelevant.

MR. HAMBLEY. This was even before you became interested in economics?

MS. YELLEN. It was.

MR. HAMBLEY. So your mom had an influence. Among your teachers, as an undergraduate or graduate student, are there people that influenced your views on macroeconomics and international economics, in particular?

MS. YELLEN. Yes, there certainly were. At Brown, I majored in economics after a brief flirtation with math as a major. At Brown, two of the people who had the most influence on me in international economics and macro were George Herbert Borts, who later became the editor of the AER *(American Economic Review)* for many years, and Herschel Grossman, who taught me macroeconomics and also served as my undergraduate thesis adviser.

For my undergraduate thesis, I worked on a theory of optimal currency areas. There had been two papers written at the time. This must have been 1966. Robert Mundell had written his still famous paper on the requirements for an optimum currency area, and Ronald McKinnon had another paper. I worked on a theoretical model to try to understand conditions in which it's a good idea or not to have a single currency. These are lessons I learned way back that I find quite relevant to the events we face today in connection with Europe.

In graduate school, the most important influence on me was James Tobin. Other people with whom I worked closely and who influenced my views on macroeconomics were William Brainard and Joseph "Joe" Stiglitz.

Tobin really had a deep influence on my thinking about macroeconomics. But beyond what he taught me about the field, he was also an important influence, in the sense that he held very strong views about government policy and the importance of economics and government policy in promoting social welfare and social justice. He felt strongly, as I always have, that monetary and fiscal policy can contribute to superior economic outcomes, and that government service and public service genuinely are important. He felt that economists are obligated to respond to calls to serve in government and to apply the tools of their trade to help improve the human condition. It was something he had done. There was a famous story about how, when he was elected President, John F. Kennedy asked Tobin to serve on the Council of Economic Advisers.[1]

Serving in government positions where I'd end up playing a role in monetary and fiscal policy is something that I felt very motivated to do. During the time that I was at Yale, Tobin and Brainard were in the middle of doing, I think, what was their most important and influential work on monetary theory. Fundamentally, Tobin was rethinking how to model the economics of portfolio choice and the determination of asset prices. He was involved in developing a general

[1] When John Kennedy asked Tobin to join the CEA, Tobin said, "I'm afraid you've got the wrong guy, Mr. President. I'm an ivory tower economist," to which the President replied, "That's the best kind. I'm an ivory tower President." Holcomb B. Noble, *New York Times,* March 13, 2002.

equilibrium approach to monetary theory. He was responsible for developing an approach that came to be known as the portfolio balance approach to financial markets. He was also thinking pretty hard about the role of money in financial intermediation and the transmission mechanism for monetary policy and thinking about how a variety of tools of monetary policy worked. This is something that I learned and became interested in early on.

When I was first in the job market after I finished my Ph.D., I guess Ralph Bryant was head of the Board's Division of International Finance at the time. I came and was interviewed for a job. I met with Dale Henderson and Lance Girton, who were here at the time. The two of them were really taking Tobin and Brainard's ideas and applying them in a very original, interesting, and, I thought, important way to understanding international financial markets, how fixed and flexible exchange rate regimes work, and how to think about exchange market intervention in monetary policy and open economies. I was offered a job by Ralph Bryant when I was first in the market. Although I ended up going to Harvard rather than coming here to the Board, that contact kindled a great interest on my part in working at the Board.

During the time I was at Yale, macroeconometric modeling was beginning to flourish. There were people at the Board, Yale, MIT, and Brookings working on models. And this was the era in which the FRB-MIT model was being constructed and the Wharton model.

One of the courses I took that influenced me was a very small seminar. A few graduate students specializing in macro were working with Tobin and Brainard. We were building our own small-scale econometric model. Groups of us would choose a particular sector, go off and do modeling, and come back and explain and talk through what we thought the consumption or investment or wage–price block of a model should look like. And our ideas would be subjected to criticism. We nicknamed the model that we were building the Bulldog model. It was a model

I later used when I taught at Harvard to do policy exercises with students in classes. Not knowing exactly how the world worked, they would have to figure out what policies should be put in place to attain particular employment and inflation goals.

Beyond the macro work that Tobin and Brainard were doing, the time I was at Yale was also the heyday of growth theory. I was studying not just theories pertaining to economic fluctuations, but also models and theories that pertained to the factors responsible for long-run economic growth. Joe Stiglitz was one of the people who was doing important work on growth theory at that time. Also, we worked on policy under uncertainty and decisionmaking under uncertainty. He was a great teacher of mine and a fount of ideas and someone I worked with closely.

Stiglitz and Tobin were my thesis advisers. My thesis pertained to both growth and business cycles. It was a theoretical model of factors that influenced capital accumulation, economic growth, and unemployment in open economies.

MR. SMALL. You previously mentioned the name “Herschel Grossman.” He wrote an important book in 1976 with Robert Barro titled *Money, Employment and Inflation.*

MS. YELLEN. He did.

MR. SMALL. That was pitted against the flexible price and the natural rate of unemployment camp out of Chicago, right?

MS. YELLEN. That’s right. This is work that the two of them did after I left Brown rather than when I was there. Grossman was a young assistant professor. I think he had been on the faculty for a couple of years. Later, Barro and he worked on modeling macroeconomic outcomes as an explicit disequilibrium phenomenon. They developed the micro foundations of choices and decisionmaking in the face of constraints where markets don’t clear and people take that into account. It was work that I looked at when I was in graduate school and after. Their key paper was published in the *American Economic Review* in 1971. Later, they put out a book on the subject. Although their initial work stimulated a lot of research by Malinvaud and other people, in later years, both of them [Barro and Grossman] explicitly rejected what they had done. Both ended up moving in much more conservative directions. Herschel Grossman was an interesting person and a pleasure to work with.

MR. SMALL. Do you remember Milton Friedman's 1968 natural rate of unemployment hypothesis and that coming onto the scene?

MS. YELLEN. That was all becoming extremely important when I was in graduate school and in the years after my Ph.D. I got my Ph.D. in 1971. These were the years in which the Vietnam War was building up. There was a lot of political unrest. I started graduate school the year the draft was put in place. Automatic deferrals for graduate schools were eliminated, and there was a lottery. Quite a number of people in my graduate school class went off to serve in the Vietnam War or to do alternatives that would keep them out of it, but [they] basically ended up leaving graduate school.

Similarly, when I was at Harvard, there was a great deal of attention to politics. There was a lot of campus unrest. It was also the year in which the Great Inflation began (1965). In retrospect, there was some confusion at the time about exactly what was happening with fiscal policy, but, clearly, inflation was picking up during that era. Even before the first oil shock in 1973, my recollection is that inflation had risen to 4 or 5 percent. Friedman argued that there's a natural rate of unemployment, and if policymakers try to push unemployment persistently below it, inflation will just increase without limit. By 1968, as I recall, the unemployment rate had declined to around 3.5 percent.

Friedman's work was important toward the end of graduate school for me, and it dominated thinking in macro controversies during the time that I was at Harvard. Essentially, Keynesian economics, which I had been steeped in, was criticized for ignoring inflation expectations and the important role that they played in influencing inflation and the inflation process.

MR. SMALL. Do you know how Tobin felt during this era? Sometimes, perhaps unfairly, he's characterized as being behind the curve on some of the inflation expectations stuff or opposed to the views of Milton Friedman, which might be not correct. Do you remember?

MS. YELLEN. I think Tobin always felt that, when government spending was increasing to finance the Vietnam War, there should have been tax increases, and that it was a serious mistake to have had an expansionary fiscal policy without a correspondingly tighter monetary policy or tax increases that would have offset the increase in government spending. I think he felt it was a mistake to have allowed the unemployment rate to drift down that low and to allow inflation to have increased. When oil prices quadrupled in 1973, touching off a massive increase in inflation, that caused inflationary expectations to rise and begin to build an inflationary equilibrium into the economy that turned out to be very difficult for Volcker to unravel. It's not as though Tobin ever felt that this was a good episode in macro policy. I think he regarded it as an era in which serious mistakes were made.

MR. HAMBLEY. Tobin's own connection with public policy and the Kennedy Administration was earlier. You could talk about activist government policy and trying to help ameliorate the great disparities between black and white people in unemployment. Actually, he was out of government by the time inflation increased.

MS. YELLEN. I think he was there around 1961 and 1962. He was just there for a year or two in Washington.

MR. HAMBLEY. Nowadays, we tend to associate the New Economics with what became the Johnson experience with fiscal policy, where the government was trying to increase spending but not fully funding the spending.

When you were in school, it was a time of social ferment. Younger people wanted to make the world better. I was attracted to economics then because it was something that promised that the human mind could actually improve the lot of human beings.

MS. YELLEN. That was exactly what attracted me to economics. I really cared about human welfare and the human condition. I saw economics as central to it. My parents had grown up during the Depression and were very influenced by that experience. For a lot of people of my generation or older, Tobin's whole generation, the Depression remained an important influence. The notion I felt very strongly was: While market economies are wonderful and markets are wonderful at allocating resources efficiently almost all of the time, there is the possibility that they can generate prolonged periods in which there's large, involuntary unemployment. Market systems may, over time, have the potential to come back to equilibrium, but monetary and fiscal policy can help and play an important role. The losses from an output gap are very large and have very serious social consequences. This was a real opportunity for government policy to play a beneficial role in improving the human condition. That's certainly what attracted me into economics and what continues to motivate me.

MR. SMALL. We haven't talked much about your research interest in labor markets.

MS. YELLEN. During the time I was at Harvard, my research didn't focus on unemployment. I ended up becoming interested in entirely different things. I did a lot of work as an assistant professor on topics relating to international trade and investment. I also became interested in advertising and a phenomenon called “commodity bundling” and wrote a number of papers. I guess you would classify them as papers in industrial organization.

Even though my research for a number of years wasn’t about unemployment and macro, I always taught the core graduate macro class at Harvard and was always interested in it and came back to research on unemployment in later years—particularly, again, during the time I was at Berkeley. My real interest there was in trying to improve the theoretical foundations of Keynesian economics, to understand why market economies can generate prolonged periods of less-than-full employment. I also worked to empirically demonstrate that periods of high unemployment are involuntary rather than voluntary. An alternative view had developed that, for example, in the Great Depression, people thought it was not a particularly good time to work; it was better to stay home and work on your house. That certainly wasn’t my view. What exactly was it about the way people made decisions and the micro foundations that underpinned unemployment? That was something I always wanted to understand and work on.

I did a lot of work with my spouse, George Akerlof, on the micro foundations of macroeconomics. We wrote a number of papers on the topic we called “near-rationality.” Other people might have called it something like “menu-cost approaches.” It ended up becoming the micro foundations for New Keynesian economic theory that still plays a prominent role in the profession. The idea that we tried to develop theoretically is that stickiness in changing money wages and prices reflects a type of rule-of-thumb behavior that, while not fully rational, entails only negligible costs to individual decisionmakers, particularly in an environment where others are behaving in the same way. Even though stickiness in adjusting money wages and prices following an economic shock does not have large cost to individual price-setters or wage-setters, this behavior can entail large costs to the economy. So we developed models of the business cycle based on what we called near-rational behavior, or rule-of-thumb wage and price setting. One paper was published in the AER and the other was in the *Quarterly Journal of Economics.* Greg Mankiw also published a paper with very similar economic implications. He described this as a menu-cost approach to pricing and showed that very small menu costs—essentially, trivial costs—can produce behavior with very large impacts on business cycles.

That was some of the theoretical work we did. We also worked on models of unemployment that were related to this based on efficiency wages. Efficiency wage models embody the insight that the wage-setting policies of firms can impact the behavior of workers at the firm—in essence, affecting their productivity. Wage-setting policies can affect morale and workers' sense of fairness. We developed models in which firms take into account the impact of their wage decisions on worker morale and feelings of fairness and commonly set wages above market-clearing levels, causing involuntary unemployment. These models explain why firms may be unwilling to cut wages in a downturn even though there are unemployed individuals who are willing to work for less than current employees. A lot of empirical research has borne this view out.

Empirically, one thing we did was to look at the behavior of quits [from employment] over the business cycle. Quits are highly pro-cyclical. The debate was whether cyclical unemployment is an involuntary or a voluntary form of behavior. We argued that the behavior of quits, the fact that quits plummet in downturns, was indicative of involuntary rationing of jobs—that people are unwilling to quit in a downturn because they're afraid they're not going to be able to find another job. We published a Brookings paper on this called "Job Switching and Job Satisfaction in the U.S. Labor Market."[2]

Unemployment and the 1991 German Unification

MS. YELLEN. From the time I was a professor at Berkeley until I came to the Board, from 1980 to 1994, a lot of the research I did revolved around unemployment—its causes and its consequences. One of the last papers I did before joining the Board in 1994 involved real-time analysis of East and West Germany's unification in 1991. We were interested in understanding what was likely to happen to unemployment, given the problems that existed in East Germany. We wrote a Brookings paper on the topic and ended up interviewing people in East Germany in the middle of the winter, trying to understand their migration behavior and what was driving unemployment. They were really shell-shocked by what was happening. They assumed that they would have jobs for life. But almost no East German industries were competitive. When unification occurred, East German wages in the East German currency, ostmarks, were translated into West German deutsche marks at a 1–1 exchange rate. Our analysis strongly suggested that, on these terms, a large fraction of these Germans would lose their jobs and would be faced with whether or not to migrate to the West.

MR. HAMBLEY. Did you just walk up to people at train stations?

MS. YELLEN. We had some research assistants who mainly did that, but, yes, we did. We did a man-on-the-street-interview type of thing. We also dropped off surveys in apartment blocks and asked people to send them back to us. There were a lot of interesting and some pretty pitiful stories that we heard about the experiences people were having adjusting.

[2] George A. Akerlof, Andrew K. Rose, Janet L. Yellen, Laurence Ball, and Robert E. Hall (1988), "Job Switching and Job Satisfaction in the U.S. Labor Market," *Brookings Papers on Economic Activity*, vol. 1988 (2), 495–594.

MR. HAMBLEY. Did you believe enough in the value of mobility and free markets and adjustment in macro systems to say "Eventually this will work out, and life will be better for these folks"?

MS. YELLEN. Clearly, there was a sense in which life was going to be better for a lot of people over time. The German government and the West German people were willing to invest heavily in transforming the East German economy. Younger people were likely to have better lives and more opportunity. In many ways, this was certain to be an improvement in life. But for a generation of people who had grown up in a different system where they were accustomed to security, this was going to be an extraordinarily difficult experience.

I think experience bore that out. We predicted that there would be high unemployment for a very long time. Our work attracted the attention of the German government at the time. We came up with a plan that we proposed for what Germany should do to deal with unemployment in Eastern Germany; it involved wage subsidies. We expected that there would be a lot of subsidies to generate investment and job creation in Eastern Germany, and we worried that the subsidies were going to promote investment in Eastern Germany that was highly capital-intensive investment. The subsidies for investment would probably cause enormous, expensive plants to be built in East Germany that would end up employing relatively few workers. Our plan was to have heavy wage subsidies to create more labor-intensive-type jobs.

In 1992, Helmut Kohl's chief economic adviser invited us to come to Germany to meet with Kohl. This was about a year after unification, and the paper we'd written that had had some influence in Germany. He had a strange idea, which was that we should take a tour of Eastern Germany, decide how things were going, and then come and meet with Kohl and discuss our reactions to ongoing developments. He arranged a tour for us that involved visiting factories and meeting with government officials and local business people in a number of places in East Germany. It was clear that unemployment was just as terrible. It was going to be as long-lasting a problem as we thought it was when we wrote the Brookings paper. Eventually they're coming out of this, but they still have very high unemployment.

MR. HAMBLEY. They're still not finished?

MS. YELLEN. It is taking a long while—generations.

Teaching at Harvard; London School of Economics; and University of California, Berkeley

MR. SMALL. Did you enjoy teaching?

MS. YELLEN. Oh, yes, I love to teach. I learned a lot from teaching. My first teaching job was at Harvard. I was an assistant professor there. During that time, I did relatively little undergraduate teaching. Most of the teaching I did was graduate teaching.

Oddly, my assignment was to teach portions of both the core graduate macro class and also the core graduate micro class. My field was economic theory with an emphasis on macro, but I also taught micro. I taught a portion of the first-year Ph.D. micro class, and then I also taught a portion of the Ph.D. macro class. My teaching in micro was usually joint with Dale Jorgenson or Ken Arrow. Then, in macro, I typically taught the course with Martin Feldstein. He and I split the graduate macro class. That was a second-semester course. Once I taught with Otto Eckstein.

At Harvard, teaching the core theory classes meant I had contact with every single graduate student. These weren't specialized courses. These were courses that every graduate student had to take. For that reason, I got to know almost every graduate student who was in the Ph.D. program during that time. It was a remarkable period with tremendously talented people. Lawrence Summers and Jeffrey Sachs came through these classes. There were a ton of terrific people who were enormously impressive and who have gone on to have very successful careers in academia and in policy. It was a remarkable experience to teach such a talented group of people that have been part of my life ever since.

I spent a short time in the International Finance Division at the Board after leaving Harvard and then went to the London School of Economics (LSE). That was the first time I ever taught international monetary economics. Rudiger Dornbusch's overshooting paper had touched off a wealth of research on dynamic models and international economics and international monetary policy. I taught that class at LSE, along with their graduate macro class.

When I went to Berkeley, I moved into the business school. I ended up with a joint appointment in economics and business, but for most of my career, I was in the business school and did work for the M.B.A. teaching. At first I missed graduate teaching, but then, over the years, I realized I learned an enormous amount by teaching M.B.A. students. I taught both macroeconomics and international economics to M.B.A. students.

When I started teaching in the M.B.A. program, it was common for students to enroll immediately after completing their undergraduate degrees. But, over time, that became less common, and students were required to have meaningful work experience before enrolling in an M.B.A. program. The students I was teaching with had business experience, were practical, were interested in things they thought had some use or applicability, but didn't have a lot of interest in theory for its own sake. That forced me, year after year, to think hard about how the material I was teaching applied to the real world and to constantly make the connection between theory and real-world developments—to stay closely in touch with current events and to think about how these events related to economic theory.

I also did a fair amount of case teaching in which students are forced to analyze the issues facing a decisionmaker in an actual real-world situation. In case teaching, it's not always clear exactly what the problem is. Sometimes you have to look at a situation, and the most important thing you have to decide is, what issue do you need to think about? It's not like end-of-chapter problems in the textbook, when it's clear what the question is. Having a clear question makes it a lot easier to develop an answer. It's not always clear in real life what the right question to ask is. M.B.A. teaching over many, many years taught me a lot. It's been valuable to me in policy.

In the business school, I learned a lot about business strategy, leadership, and how businesses think about the world and make decisions. That proved very helpful to me when I was the president of the Reserve Bank in San Francisco and in my interactions over many years with businesspeople—learning how to learn from them.

MR. SMALL. How did LSE differ from a standard U.S. department of economics? What did you get out of it that might be similar or unique?

MS. YELLEN. At the time, in England, there was a heavy emphasis on master's programs. The idea there was that, to serve a meaningful role in government or high-level positions in business, it wasn't essential to have a Ph.D. It was essential to have a good understanding of economics, but it wasn't essential to write a Ph.D. thesis to serve in government.

At English universities, and particularly LSE, first-rate students could enroll in a graduate program that would train them to have jobs as economists that were not Ph.D.-oriented. Virtually no graduate schools in the United States were willing to accept people who were interested in getting a master's degree. They were fundamentally teaching people who wanted to have careers in research. So LSE's orientation was unique and different, and the people at LSE were terrific. The students were absolutely first-rate. They intended to learn enough to serve in government or in other applied areas. They populated finance ministries and central banks in many parts of the world. It was a very international, diverse crowd. The teaching was thorough and rigorous, but it was intended to be applied.

MR. SMALL. Did it differ from the M.B.A. teaching at Haas Business [School]?

MS. YELLEN. Yes, because the M.B.A.'s largely intended to work in private businesses and were interested in economics to the extent it had business applications, whereas in England, more of the students expected to populate central banks or finance ministries or serve in an economic post in government. There was much greater interest in economic policy and economic theory.

MR. SMALL. What attracted you to LSE?

MS. YELLEN. I was at the Board and expecting to spend many years in the International Finance Division. One day I met George Akerlof, who was a visitor in the Division of Research and Statistics. We were having lunch in the cafeteria. He was on leave from Berkeley and had accepted a permanent position at LSE. He had been appointed the Cassell Professor at LSE. He was spending a year here at the Board as a visitor en route to England, and he was already committed to going to LSE. When we fell in love and decided to get married, it seemed like accepting a position at the LSE was an ideal opportunity.

Working in the Board's Division of International Finance

MR. HAMBLEY. When you were in the Division of International Finance, were there particular things that you haven't mentioned that you worked on that were current and topical?

MS. YELLEN. As I mentioned before, I had been attracted to the Board when I was first in the job market. I knew Dale Henderson. He overlapped with me at Yale for a while, and I was very interested in the kind of work he was doing. I knew Edwin "Ted" Truman slightly from Yale. I had spent a summer at the Board as a consultant. Ted and Dale invited me to come.

I think it was in 1976 when I finished my assistant professorship at Harvard and was trying to decide what to do next. The Board had always been appealing to me. I didn't end up coming to the Board, but I was very attracted to the Board when I had first been in the job market. When they asked me if I wanted to come, definitely it was something that was attractive to me. I joined Dale's section, which was Trade and Financial Studies. The idea was that I would have a considerable amount of time for research. At the Board, this was one of the most research-oriented sections.

When I joined in 1977, I wasn't there very long. I wasn't there for much more than a year. Shortly after I settled in, Ted said, "I have a fascinating project for you. I'd like you to think about the economics of special drawing rights (SDR)." I knew absolutely nothing about the topic. Henry Wallich was a Governor at the time, and he focused on international affairs. At the time there was some interest in the government in potentially having another SDR allocation. The question was whether or not this was a good idea. He said, "There's been almost nothing written about the theory of SDRs." I think Governor Wallich's view of this was, essentially, SDRs are money. I may be simplifying, but SDRs are money, and money causes inflation, and an SDR allocation will be inflationary. I guess this was 1977. I don't think he thought that was a very good idea, and there wasn't that much more to it. Ted said, "Why don't you think about it? There hasn't been a whole lot written."

I spent a good deal of time on that and wrote a long paper on SDRs. I developed a very different view of SDRs, perhaps not surprisingly. Ted took me to breakfast with Governor Wallich after I finished this long paper, and we discussed SDRs. I don't think I changed

Governor Wallich's mind much about it, but I was also involved in some interagency groups, including one involving the Council of Economic Advisers. That was the main practical project I worked on during that time.

MR. HAMBLEY. Was there an expansion of the SDR?

MS. YELLEN. No, there wasn't. It was contemplated, but it didn't happen at the time.

High Inflation in the 1970s

MR. HAMBLEY. Did any of the major theoretical and mental developments that occurred cause you to reorient your thinking and maybe to have a slightly different view of what government could achieve or how rapidly it could achieve it?

MS. YELLEN. The experience of high inflation in the 1970s certainly was a transformative experience for many economists, me included. We went through a period in which it became so difficult and so costly to control inflation. And we learned about the importance of inflationary expectations and of paying attention to them and the high costs that inflation could impose on society when it became embedded.

Tobin cared somewhat about inflation. Tobin's view was always: Inflation is something we have to learn to live with. It's not the most terrible thing in the world. Unemployment is the most terrible thing in the world.

MR. HAMBLEY. If inflation is low.

MS. YELLEN. Even when it became 4 or 5 percent, [Tobin thought] we can develop indexation. Maybe we'll have wage and price guidelines. The cost of bringing inflation down, in terms of unemployment, is not worth doing it. We can learn to live with inflation.

The experience of the 1970s taught a lot of people, including me, that this is a very dangerous point of view. I've always cared a lot about unemployment and certainly still do. But the dangers of allowing inflation to become embedded in economic thinking and in wage- and price-setting, and the importance of monetary policy and paying attention to inflationary expectations, is something that has been important for me ever since then.

MR. HAMBLEY. There was a time when expectations of inflation weren't thought about very systematically. It was eye-opening to see the actual behavior of the economy when inflation picked up. Frequently you would see that instead of having a good unemployment outcome and a somewhat higher inflation rate, you'd have worse in both dimensions. The experience of quelling inflation in the late 1970s, while maybe not as bad as some people thought, was still terrible. Did that contribute to the feeling that it's important not to get into that situation ever again?

MS. YELLEN. Absolutely. It certainly was a lesson that I learned from that episode. And for most people who were actively involved in policy, that was a formative experience for them. When I served as a Governor in 1994 to 1997, we watched unemployment fall to levels that were considered at that time—maybe with the benefit of hindsight, wrongly so—to be pushing below NAIRU [non-accelerating inflation rate of unemployment]. And we understood that there was a potential for inflation to rise, which would, in turn, necessitate a tighter monetary policy that could have [a] very adverse effect on unemployment. Policymakers should certainly recognize the need to take away the punchbowl before we ended up in that kind of situation again.

When I was a Governor from 1994 to 1997, I don't think I ever ended up dissenting [on a policy vote]. But there was one occasion in which Laurence H. "Larry" Meyer and I went and talked to Greenspan and said, "We just think that the time has come. It's utterly essential to raise rates, and we're not sure we're going to be able to support you if you don't agree to do that." I don’t think people normally consider me on the hawk end of monetary policy, but it certainly was something I learned from the experience of the 1970s. However, it turned out that Greenspan was quite right that inflation wasn’t going to be a problem, and I was wrong, looking back on it. He recognized that productivity growth had risen, and that was working to contain cost pressures that otherwise would have spilled over into inflation.

MR. HAMBLEY. The experience of inflation in the late 1970s and the social cost of putting the inflation genie back in the bottle once it was out was extremely important. That was a formative experience comparable, maybe, to what had happened during the Depression. You just couldn’t be the same person if you were paying attention to what was happening. You were very aware of what was actually happening and how it fit or didn’t fit with what you thought coming into that episode, and so you are always learning from the actual events.

MS. YELLEN. I agree. One has to be attentive to what’s happening and to be able to change the views that you held in the light of subsequent experience.

From the Gold Standard to Flexible Exhange Rates

MR. SMALL. Do you remember the United States going off gold in the summer of 1971? Was that a paradigm shift from controlled markets to free markets?

MS. YELLEN. I remember the decision to close the gold window and then the breakdown of Bretton Woods. By 1973, we had gone to flexible exchange rates among the major currencies. The advantages and disadvantages of fixed and flexible exchange rates has been one of the core questions of international monetary economics from time immemorial. And it was something I had spent a lot of time thinking about over my career. Shutting the gold window absolutely seemed like it was going to be the death knell for Bretton Woods and the end of an era of fixed exchange rates, and that’s what it turned out to be.

I was always attracted to flexible exchange rates as a system with more robust characteristics. Robert Triffin [who was famous for the "Triffin dilemma"] was a professor at Yale when I was there. I never took a course from him, but I certainly was well aware of his view that, if you understood the Bretton Woods system, it really contained the seeds of its own destruction. Anybody looking at the history of what was going on with gold and the U.S. role in the global economy leading up to the shutting of the gold window had to appreciate that this was a system that looked like it was doomed.

Inherently, the United States was in a position of supplying the world with reserve assets—namely, dollars, but dollars that were backed by gold. There simply couldn't be enough gold to serve as backing for those dollars in a growing global economy with growing demand for reserves. The dollar served as the key reserve asset, but the more the dollar played that role, the more the system was subject to ultimately breaking down.

In some sense, it was a momentous event. I think it was August 1971 when they closed the gold window, but it was something that you could see eventually had to happen. I thought it ushered in a system that had some desirable properties, in terms of its ability to adjust to shocks. That said, a flexible exchange rate system has its own huge set of problems. It's not that it's been the easiest system to live with, but I think it helped the global economy get through a rough period in the 1970s and later on.

MR. SMALL. We still hear some calls for a return to the gold standard because it enforces discipline. The problem in the 1960s for the United States was budget deficits, the printing of too much money, and the U.S. debt. That undid that system. Somehow discipline has to be reworked into the system. Is that right?

MS. YELLEN. There was a need for discipline, and markets end up imposing it, whether the system has fixed exchange rates or the gold standard. Tying oneself to gold creates discipline, but it has highly undesirable properties, in terms of how the economy as a whole performs. I don't think it's a desirable way of ensuring discipline. It's not the right kind of discipline.

MR. HAMBLEY. When did you particularly become interested in monetary policy, per se? Was that something that was after the end of the Bretton Woods phenomenon? Was that because that kind of world, in principle, allows a scope for monetary policy, for the kind of activist activity that maybe didn't exist before?

MS. YELLEN. The United States always had the scope for an activist monetary policy. The United States had a system of fixed exchange rates, and often we think that countries with fixed exchange rates don't have a lot of scope for an independent monetary policy. But the United States was the exception to that rule because of the role of the dollar as a reserve currency. So we'd always had the scope for an independent monetary policy. The rest of the world got dragged along by [our] monetary policy and didn't always like what it meant for them, but monetary policy always played an important role in macro policy in the United States. I'd been interested in monetary policy during graduate school and when I was an undergraduate. Part of my core interest in macro included an interest in monetary policy.

MR. HAMBLEY. It is a somewhat different world, isn't it, when you have flexible exchange rates?

MS. YELLEN. Yes, it is a different world. The constraints on monetary policy are reduced, especially for smaller countries that would have had, under a fixed exchange rate system, essentially no scope for an independent monetary policy.

MR. HAMBLEY. There's more hope.

MS. YELLEN. A lot more hope.

Nomination to the Board

MR. SMALL. While you were a professor at Berkeley, you were nominated to become a member of the Board.

MS. YELLEN. Alan Blinder, who was at the Council of Economic Advisers, was the first person from the Administration to contact me. They were putting together lists, and he asked me if I had any conceivable interest [in coming to the Board]. I went off and asked my spouse what he thought, and he said, "That's great. That's something you've always wanted to do. We can make it work, and I can take a leave of absence." He said, "If you want to get this job, what you have to say is, 'I will absolutely accept it no matter what, unconditionally.' " Within an hour, knowing my family was willing to move to Washington, I called Alan back and said, "I'm definitely interested, and if you decide you want me to do it, I absolutely will do it." Then I didn't hear anything for months and months.

MR. HAMBLEY. How did Alan Blinder know about you?

MS. YELLEN. He was trying to create a list of potential nominees for the Clinton Administration. We were not close personal friends. We didn't know one another terribly well. We knew one another's work. We had met at many conferences. We had many friends in common. He was someone I felt I had some rapport with, even though we weren't close friends.

MR. HAMBLEY. So the CEA had a bigger role in vetting nominees, maybe, than they sometimes do?

MS. YELLEN. [The] CEA certainly had a role during the Clinton Administration, and I witnessed that after I left the Board in February 1997 to join the Clinton Administration. My seat was vacant, and I believe there was another seat vacant. Almost as soon as I got there, we were discussing the issue of how to fill the vacant seats at the Fed. I became involved in the process. There was a group from Treasury, the Council of Economic Advisers, and the National Economic Council (NEC) beginning to discuss what we were looking for and what kind of people would be ideal. To create slates of possible nominees, many of us, including me, made calls to ask people if they had potential interest. As soon as I went to the White House, I remember interviewing both [Edward M.] "Ned" Gramlich and Roger Ferguson, who were ultimately nominated and appointed. I think it was always a process in which the Council of Economic Advisers, Treasury, and NEC were involved. In my own case, I talked to Alan, and then nothing happened for months. Eventually I got a call from Treasury asking if I could come for interviews. That was essentially the set of players that I met with when I was being appointed in 1994.

MR. HAMBLEY. Did you know Laura Tyson?

MS. YELLEN. I did. We weren't close friends, but we had been colleagues in the Berkeley faculty for many years.

MR. HAMBLEY. Was she the head of the CEA, then, when you were nominated?

MS. YELLEN. Yes, she was head of the Council of Economic Advisers (1993–95). The other members were Joe Stiglitz—he was one of my thesis advisers and close friends—and Alan Blinder. I was interviewed by all the CEA members. I met with Robert Rubin, who was head of NEC at the time. Then I met with a number of people at Treasury: Frank Newman, who was undersecretary of the Treasury, and Roger Altman, who was deputy secretary. When I made my trip to meet with most of them, Lloyd Bentsen wasn't available. He was away. Then I got a call from Treasury, and he wanted to meet with me. To save me another trip to Washington, he invited me to his home in California, in Rancho Santa Fe. I flew to Rancho Santa Fe and had a nice long talk with him about economic policy. That was the set of players who interviewed me for the Fed job.

MR. HAMBLEY. When you were nominated, how would you characterize your views on monetary policy?

MS. YELLEN. The word I used to characterize myself was "pragmatic." By that I meant to convey that I don't fall into any extreme ideological camp. Obviously, I have sympathy for a Keynesian world view. I believe in market systems. I believe markets work well, and I'm in favor of capitalism as a system. But I don't think it always works to keep the economy at full employment, so I believe there's a role for monetary policy. I certainly learned a lot about the importance of keeping inflation under control, and I learned quite a bit from Friedman and the experiences in the 1970s that we just discussed.

I thoroughly endorsed the Fed's dual mandate for full employment and also for price stability. I felt my views on policy, in controlling both inflation and the employment side of the mandate, were balanced. I might not have had a reputation as a hawk, but certainly I knew that I would be prepared to raise interest rates and do what was necessary to keep inflation under control. I had no intention of being part of a repeat of the experience of the 1970s. In that sense, I felt I had a balanced view. I wasn't extreme or ideological.

In thinking about what data one looks at, again, I would characterize myself as firmly in the tradition of thinking that one should look at everything. I'm not somebody who thinks the price of gold is the be-all and end-all, or some sort of monetary aggregate, or that all we need to do is look at one or two things to understand what's happening in the economy. Again, I considered myself to be open minded—I think it's important to consider a broad range of empirical data and evidence.

I thought of the term "pragmatic" as summarizing all of that.

MR. SMALL. What did members of the Administration want to know about your views prior to your nomination? Did they want to know how you would vote?

MS. YELLEN. No one ever asked me how I would vote on any particular monetary policy issue. In some cases, they wanted to talk about the CRA (Community Reinvestment Act), supervision, and the consolidation of supervision. It wasn't all about macroeconomics or monetary policy.

Rubin was the one person who asked me directly about my views on monetary policy, what I thought of Fed policy, and what I thought the Fed should be doing. I made this trip to Washington around April 1994. The economy had been confronting headwinds. There had been a pretty long recession. The Fed had brought the funds rate down to 3 percent, where it had been holding it for a long time. The economy was beginning to recover. Unemployment was coming down. When I went for that job interview, the unemployment rate was a little bit over 6 percent still, but it had fallen quite a bit. The Fed had started raising the federal funds rate. The first increase was in February 1994. Maybe there had been a couple of increases. This was April. It was the beginning of tightening. Rubin wanted to know what I thought of that.

At the time, inflation was still maybe close to 3 percent. It wasn't down to 2 percent. It had come down quite a lot during the recession. While 3 percent wasn't horrible, it still wasn't consistent with what most people thought was price stability, and I didn't consider it to be consistent with price stability either. My own view at the time was, it was entirely appropriate to be tightening monetary policy, and there would be more to come, assuming the economy continued to recover. In fact, it looked like the economy was beginning to build a head of steam. The federal funds rate at that point was pretty close to zero in real terms.

MR. HAMBLEY. And the funds rate had been around 3 percent for a long time.

MS. YELLEN. Yes, it had been. But in 1994, we were beginning to get a recovery. Now, I understand this would have been a very sensitive issue, because the Clinton Administration had come in with a plan to reduce the deficit, and they pushed through a deficit reduction package by the narrowest margin—I think one vote in each house of the Congress. There had been some discussion of having a short-term stimulus along with it, but nothing ever came of that. They had just put into place a deficit reduction package, and I think it was extremely important to Clinton.

The saying at the time was, "It's the economy, stupid." Job creation was what they were after. I thought maybe their thinking was: We're going to have a tighter fiscal policy, and that means it will be necessary to use your monetary policy to offset tighter fiscal policy and keep the economy expanding. But, in fact, aggregate demand at that point was beginning to build up quite a head of steam in spite of the planned fiscal contraction. And the fiscal contraction would not be immediate but, rather, would be spread out over time.

I hadn't been part of any of these decisions. I was coming in from the outside. But it seemed to me that it was appropriate to begin a period of tightening policy, and it still had a ways to run. It wasn't complete. I discussed that with Rubin.

MR. HAMBLEY. Was Rubin simply trying to judge the quality of your mind and your ability to think, or was he nudging you in some direction on policy?

MS. YELLEN. I never felt that he was nudging me in any direction. I think he wanted to hear what I actually thought. My guess is that he agreed with me. I think there were debates within the Clinton Administration, and not everybody had the same view. Rubin, probably Summers, and others thought tightening monetary policy was the right move. Long-term interest rates had come down substantially after the deficit reduction program was announced. That was part of the Rubin doctrine—that the markets were worried about the deficit, and a credible [deficit-reduction] package could stimulate the economy by bringing rates down. At any rate, I don't know how much that or other things contributed, but we had an economy that was clearly beginning to grow and had the potential to overshoot full employment. To my mind, tightening monetary policy was the appropriate thing to do, and I said so. I didn't know whether that was going to be the right answer or the wrong answer, but that was what I thought, so that was what I said.

I think Clinton himself was terribly worried that the Fed was going to choke off an expansion, which of course never happened. To me, the question wasn't "Should tightening occur?" The real interest rate was close to zero. The Fed had its foot pretty firmly on the accelerator. Inflation was still a little bit higher than I think the Fed should have been comfortable with. This was the era in which people were writing papers on opportunistic disinflation, so, if you had a recession, inflation would come down.

It was important not to give up the gains that had been made on the inflation front. I came to the Board more than prepared to support some tightening. Once I got here, from my perspective, the questions were, how fast, how much, and when do you want to stop? I ended up having some disagreements—or might well have had disagreements—with Greenspan over, when is this tightening process going to stop? But I was walking in feeling, yes, we're in the middle of a tightening cycle.

MR. HAMBLEY. You participated in a number of funds rate increases.

MS. YELLEN. Oh, absolutely. My first meeting was in August 1994. We raised the funds rate by 50 basis points. That was my second day on the job, and I didn't have any hesitation in voting for it. I did wonder if President Clinton was going to feel, "What have I done here?" [Laughter]

MR. HAMBLEY. Did you ever meet President Clinton in the course of being nominated?

MS. YELLEN. He never interviewed me for the job. When my nomination was announced, Secretary Bentsen went into the White House press room with Alan Blinder and me, but President Clinton didn't participate. Bentsen announced our nominations. But before we went down to the press room, we briefly met with Clinton.

Chairman Greenspan

MR. SMALL. At the time you joined the Board, what were your impressions of Chairman Greenspan?

MS. YELLEN. I knew he had deep experience in forecasting in the private sector. And he had a way of discussing the economy that was unusual. He didn't use the same paradigm for thinking about how the world works that was comfortable and familiar to me.

MR. SMALL. Did that make him hard to argue with, in the sense of, if someone had been a Milton Friedman advocate, you could have said, "I know your paradigm. Let's go at it. I know the key issues"? Was it a little more amorphous?

MS. YELLEN. Yes. It absolutely was. It was difficult for me to get a handle on the framework that he was using to think about the economy, whether it was going into enormous detail about inventories or arguing about what's going to happen to inflation based on productivity developments and firms not being under pressure to raise prices because their profit margins are high.

He was extremely interesting. He had a nonstandard thought process. It wasn't what I had encountered in my previous career. It wasn't the way people conversed in the seminars I'd attended. He wasn't basing his views on paradigms that were familiar from most of the academic discourse I'd encountered. Therefore, trying to understand how he was formulating his views was a challenge.

I'd had one previous contact with Greenspan before I came to the Fed. I had met him when he was chair of the Council of Economic Advisers (1974–77). I was an assistant professor at Harvard at the time. One of Greenspan's colleagues was William Fellner; he was a CEA member (1973–75), and had been a teacher of mine at Yale. They got the idea that maybe I could come and join the staff of the CEA. I was potentially open to that. I wasn't really enthusiastic about leaving Harvard, but it was a possibility. I came and had lunch with Greenspan and Fellner. They took me to the White House mess. It turns out that Greenspan wanted someone at the CEA to build an econometric model, a forecasting model. That really wasn't what I wanted to do. I would have been open to going to the CEA to get more involved in policy, but the idea of going there and building an in-house forecasting model, which is what Greenspan wanted, wasn't what I wanted to do, so it didn't work. But I had at least met him once.

MR. SMALL. It must have been a lot easier for you to sit down and talk shop with Larry Meyer.

MS. YELLEN. Oh, for sure.

Early Impressions of Working at the Board

MR. SMALL. What were your early impressions of working at the Board?

MS. YELLEN. There were always people with whom I felt very much in sync—people who, fundamentally, thought about how the world works in the same way I did. It was really easy to get in-depth on and to debate issues and to have productive conversations, because we shared the same general mindset. I certainly felt that way with Alan Blinder from our early days together. When Alan left and Larry Meyer came, I felt that same intellectual rapport with him. We had very productive conversations and saw eye-to-eye on things. But in the FOMC, there are people with a range of talents and backgrounds and interests, and when making policy decisions, it's useful to have that diversity of views.

MR. SMALL. Earlier you mentioned Roger Ferguson. You talked about him when you were at the CEA.

MS. YELLEN. His name came up as a potential candidate for the Board.

MR. SMALL. He was not a Ph.D. economist. Do you think it's important that the Board have this diversity?

MS. YELLEN. Roger did have a Ph.D. in economics as well as a J.D., but he did not have an academic background. He had worked at a law firm and for many years at McKinsey, where he worked, among other things, on banking issues. This was a very useful range of experience, particularly because the Federal Reserve has a broad range of responsibilities, including bank supervision and regulation. Even in monetary policy, I found over the years that you get a better debate if there are intelligent non-economists participating in the FOMC. As the years have gone by, we have ended up with more Ph.D. economists on the FOMC, and it has become more seminar-like. But, frankly, it's not always been clear that this led to an improvement in policymaking. [Laughter] I found that non-economists who listen to the discussion among the economists ask themselves, “What makes sense to me? What seems like a good argument? What seems like it’s relevant to the world as I’m experiencing it through my contacts, whether they’re bankers or businesspeople or whatever?”

People can make contributions if they’re non-economists. When I was first a Governor, Mike Kelly, who was an extremely sensible businessperson, not a Ph.D. economist, listened to arguments intelligently and knew what made sense to him. And he usually came out in what I thought was a sensible, practical place. He understood what kinds of arguments people in the real world could understand and relate to. Having a variety of people with a diversity of views is a strength of the Board. Obviously, monetary policy is only one of the jobs we have. There is banking supervision, community development, and other important additional responsibilities, such as operating the payment system. It takes people with a variety of backgrounds to carry out all those functions.

MR. SMALL. How did you interact with members of the Board staff?

MS. YELLEN. Having been a staff member and being an economist, I had the same background as the staff in the three economics divisions. I felt extremely comfortable interacting with [the] staff. I got an enormous amount out of my interactions and had very high regard for the staff.

In my first stint as a Governor, I found it challenging to find ways to interact and get involved in more detailed discussions of policy issues or aspects of the forecast beyond what one would normally see as an FOMC member and by reading official FOMC documents. I found the bureaucratic setup of the Board isolating in the way in which it treats Governors; it was not very encouraging of informal interactions between Governors and [the] staff. During my first stint as a Governor, that was an issue that concerned me. It was sometimes difficult to generate the interactions I would have liked with the staff. But I always felt comfortable with the interactions I had with the staff and certainly worked hard to make sure that I had plenty of interactions with them.

Preparing for Confirmation Hearings

MR. HAMBLEY. How did you prepare for your nomination to the Board? Do you get any advice from the Chairman or other Board members?

MS. YELLEN. I had no contact whatsoever with any Governors during the time I was preparing for my nomination. I had terrific preparation, though, from the Board staff. I put myself in the hands of William Wiles, the Secretary of the Board, and Joseph Coyne, head of the Public Affairs Office.

They sat me down in the extra Governor's office, where I sat for many weeks. Fortunately, I happened to be on sabbatical from Berkeley, so I had quite a lot of time to spend here, reading these fantastic briefing books that the Board staff prepared. Then I went through a series of meetings with each of the divisions, going over their books. That was hugely beneficial in helping me prepare. I got to know all the senior staff through those briefings.

I studied all the briefing books. I realized there were a bunch of things I didn't know anything about and I was going to have to get up to speed on in the areas of the payment system, banking supervision, community affairs, and CRA. There were a bunch of controversial issues that I just needed to learn a ton about. It was not just studying for confirmation, it was an orientation toward what we end up doing at the Fed, what the current issues were, and what the views on them were. We had very lively debates. I learned a lot. I prepared very carefully for the confirmation hearings. I was impressed with the briefing books.

The second time around, when I was nominated to be Vice Chair in 2010, I knew a quite a bit more about what was in the briefing books, having spent six years as head of the San Francisco Fed. [Laughter]

MR. HAMBLEY. Were there areas of the Board's responsibilities that were a total surprise?

MS. YELLEN. There was nothing that came as a total surprise to me. I understood that the Fed plays an important role in banking supervision, for example, although there were many aspects of that role that I really didn't know much about. That included details of how bank supervision is conducted, exactly what's in the Bank Holding Company Act, and how the Fed reviews mergers. There was a lot I needed to get up to speed about there. There were a lot of regulatory issues. But there was nothing that was a total surprise to me.

I made up my own book of Q&As as I went over the Board's briefing books and met with the staff. The Board briefing books covered the main functions, responsibilities, and policy issues in each of the areas where the Fed operates. My personal briefing book covered questions I thought I might be asked and contained my attempts at answers. As I went through those briefing books, I was asking myself, what are the questions I might be asked? What position should I take? I discussed all of that with the staff as we met to go over what was in the briefing books.

MR. HAMBLEY. You made courtesy visits to members of the Senate committee overseeing your nomination?

MS. YELLEN. I did, yes. I met a number of the members of the Senate Banking Committee. The meeting that will always stand out in my mind was the meeting with Senator Lauch Faircloth, which, frankly, was scary. He wanted to talk mainly about government debt and the deficit. I knew that he was fiscally conservative, and I was prepared for that. But what I didn't realize was just how fiscally conservative he was. My recollection is that he held the view that not only are deficits bad, but debt is bad—and, fundamentally, any debt is bad. I think he wanted to hear me say that not only should the government balance its budget, but that we should also pay down the debt.

I remember him telling me a personal story about how, when he was a young man, he had gone to his mother to ask if she would lend him money, I think, to buy a truck that he needed for, I believe, a farm that they had. I recall his telling me about how his mother had said, "No," he couldn't have any money. She thought it was wrong to ever be a borrower—he should save to buy the truck. This had been an important life lesson to him, that one should never borrow. [Laughter] To my mind, this was an extreme view. I certainly didn't want to get in fights with anyone in my courtesy visits, but I thought this could be a serious risk. By and large, the visits were uneventful.

MR. HAMBLEY. Senator Faircloth was a Republican senator from North Carolina (1993–99). He was the only member of the committee that voted against supporting your nomination. Apparently, you didn't satisfy him. He also was among a handful of senators who voted against you on the Senate floor. But sometimes you encounter views that you simply are not going to have a meeting of the minds about.

At the time of your confirmation hearing, Donald Riegle was the chairman of the Senate Committee on Banking, Housing, and Urban Affairs (1989–95). Had you ever testified before that committee?

MS. YELLEN. I had never testified.

MR. HAMBLEY. What happened the night before you testified?

MS. YELLEN. This was my first experience. I was scared. I didn't quite know what to expect, but staff here had put me through murder-board-type trials so that I had a sense of what would happen in a hearing. I understood the "traffic light" system and how people have a certain amount of time, and I had gotten some pointers on how to answer questions.

What was memorable to me was that, in the opening part, before I had a chance to give my opening statement, Senator Paul Sarbanes (D-MD) (1977–2007) and Senator Faircloth became involved in, essentially, a fight over something having to do with the dollar and inflation and whether the dollar was falling in value. They went back and forth, citing statistics and charts. Sitting there, I remember the people who had been guiding me in this said, "Look, if they don't ask you a question, you just stay out of it." [Laughter] I thought, here are the two of them going at it. Maybe somebody is going to look at me and say, "What do you think?" Then Faircloth left, and he never asked me a question. I don't think any of the Republicans on the committee, as far as I can recall, asked me a question. My recollection is that most of the questions in the hearing were posed by Riegle, Sarbanes, and Jim Sasser (D-TN) (1977–95). I don't remember a lot of other questions. I was pretty comfortable with the questions they asked me. This was just before the Riegle Community Development and Regulatory Improvement Act became law (September 23, 1994).

Regulatory consolidation was an issue. Riegle was very interested in regulatory consolidation, and I remember him asking me my views on that topic. I had understood that this was a very controversial matter, and it was likely to be asked. I explained that the United States had a pretty Byzantine system of regulation, and I was in favor of some regulatory consolidation to make the process of supervising the banking system more efficient and probably reduce regulatory burden at the same time.

MR. HAMBLEY. Did you feel confident that you were going to be voted on and approved?

MS. YELLEN. I assumed so, but then something strange happened. The hearing ended, and I thought everything had gone reasonably well. I believe I was sent a bunch of follow-up questions by Senator Byron Dorgan (D-ND) (1992–2011), as I recall. Then, lo and behold, I got a call telling me that Senator Dorgan was likely to oppose my nomination and was insisting on a Senate floor debate. I guess most Fed nominations are by unanimous consent and occur in the dead of night: "We now approve docket number 9427," and that's it. That's certainly what happened this most recent time.

People told me that that Senator Dorgan thought I was too much of a hawk. [Laughter] Frankly, nobody had previously accused me of being too much of a hawk, but apparently he had gotten the view that I was too much of a hawk, and I didn't care enough about employment. That struck me as odd. He had the view—which is a view I share—that federal appointments are important, that the Fed plays a critical role in the economy, so it's important for the Senate to take an interest in the quality of Fed nominees. The Senate should not allow all these nominees to go through without any debate about their views on monetary policy and whether they're qualified; that would not be a good thing to do. I was sympathetic to the notion that these are important appointments.

I feared for several days, as I recall, that Dorgan was going to hold up my nomination. Then, in the days before the debate was scheduled, I had the sense that some of the Democratic senators, maybe including Sarbanes, had a conversation with Dorgan suggesting that the notion that Yellen is the worst hawk in the world and that she doesn't care about unemployment at all is really not at all true, and it would be ill-advised for Dorgan to oppose this appointment.

[Laughter] By the time the floor debate began, Dorgan had changed his mind and decided that he was going to support me. Nevertheless, he had insisted on reserving some time for a debate on the Senate floor.

MR. HAMBLEY. Did he hold up your nomination until he got a promise?

MS. YELLEN. I believe he did.

MR. HAMBLEY. Then he changed his mind.

MS. YELLEN. They ended up having a roll call vote. He never said anything negative about me, as I recall. He may even have said positive things about me. They talked a bit about Fed policy, and then they called for a vote. Faircloth and five other Republican senators voted against me, because Dorgan had insisted on the roll call vote. The vote was 94–6, and that was okay by me.

MR. HAMBLEY. Thank you for making time in your schedule to be interviewed.

MS. YELLEN. My pleasure.