

As Biden's cabinet takes shape, Yellen's appointment as Treasury Secretary emphasises stability over ideology

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With President-elect Joe Biden's transition officially underway following the certification of voting results in several key battleground states, Biden has shifted his focus to naming his Cabinet and other key advisors for his administration. Biden's appointments can serve as barometer as to how he will balance the progressive and moderate wings of his party. Given the likelihood of a Republican majority in the Senate, Biden will lean heavily on executive powers to enact his agenda, which underscores the importance of his Cabinet members, as they will hold the keys to administrative action.

Biden's choices for key positions thus far indicate that stability and consistency will be the driving forces behind his administration's ethos. In keeping with this theme, on November 24th it was widely reported that Biden will nominate another familiar face, Janet Yellen, former Federal Reserve Chair, to be Treasury Secretary. Yellen is one of the most high-profile nominees named so far and her experience at the Federal Reserve in the aftermath of the 2008 Financial Crisis will be needed in addressing the economic fallout from covid-19. Given her high profile and respected tenure as Fed Chair, we would expect Yellen to win Senate confirmation relatively easily, another plus from Biden's perspective.

Yellen's appointment may come as a disappointment to some progressives hoping for more transformative financial-services policy. Yellen is no Sen. Elizabeth Warren, and her name should not strike fear in the hearts of Wall Street. That said, Yellen supports tougher financial regulation. As Fed Chair, Yellen made it clear that the government's regulatory actions in response to the Great Recession were necessary. More recently, she has pushed back on Republican criticism that financial regulation has impeded economic growth. Yellen has also argued that federal regulators need stronger capabilities to ensure financial stability. However, she has also supported reducing regulatory burdens on banks, particularly smaller ones. Her support of releasing American International Group (AIG) from federal oversight (officially, de-designating AIG as a Systemically Important Financial Institution, an effort led by the Treasury Department and requiring a vote by the Fed) while serving as Fed Chair also indicates that she hopes not to impose undue regulatory burdens on the financial industry.

Yellen will use her authority and mandate during the current economic crisis to make changes but is unlikely to pursue fundamental shifts in US financial regulatory policy. Her primary focus will be strengthening the labour market and getting people back to work, which means short-term interest rates will likely continue to be near zero so as to support job growth - Yellen has argued in the past that there is little downside for borrowing more to help return the economy to pre-pandemic levels

so long as inflation and interest rates are low. She is also likely to advocate for more robust use of emergency credit facilities to support this. Yellen will also be involved in covid-19 stimulus discussions on Capitol Hill. While Trump heavily relied on Secretary Mnuchin to liaise with Congress, Biden's team already has deep relationships with lawmakers and Yellen may play a quieter role than Mnuchin.

In terms of financial regulation, we believe she will push for stronger stress tests for banks following the weakening of that function under Trump (though Treasury does not regulate the banks, it acts in close concert with the bank regulators, and we would assume Biden will nominate similarly-minded officials to lead these agencies). Yellen has also warned of the dangers of rising corporate indebtedness, citing a decline in corporate lending standards. As Secretary, Yellen will also be Chair of the Financial Stability Oversight Council (FSOC) an interagency body established under the post-crisis Dodd-Frank Act. There, she is likely to work to clarify FSOC's responsibilities to include financial stability as well as overseeing the safety and soundness of supervised institutions and investor protection. Yellen's recent outspokenness on the role of financial regulators in addressing climate change could also manifest in her FSOC agenda and Treasury actions more broadly by encouraging companies to detail how they are mitigating climate risk.

While there are areas where we think Biden's calculus could put heavier weight on the progressive side of his party - namely in labour, energy and education, his choice of Yellen for Treasury is a sign that Biden will be inclined to govern as a moderate. Financial services policy will be tighter under Yellen's watch, especially after four years of Trump's deregulatory agenda. But for companies and investors looking to do business in the US, Yellen's nomination signals that Biden will value competency and steadfastness over transformative change.