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Romer Resigns in Second Exit for Obama Economy Team

By Hans Nichols and Vivien Lou Chen - Aug 6, 2010

President Barack Obama lost a second member of his economic team as economist Christina Romer decided to return to teaching on the eve of an employment report highlighting the administration's struggle to spur job gains.

Romer, chair of the Council of Economic Advisers, is returning to a post at the University of California at Berkeley, the White House said yesterday. She is interested in heading the Federal Reserve's regional bank in San Francisco, according to a person familiar with her plans who requested anonymity.

The resignation, effective Sept. 3, follows the July departure of Peter Orszag as director of the Office of Management and Budget in July. Jack Lew, who ran President Clinton's budget office, is set to replace Orszag pending Senate confirmation, with Deputy OMB Director Jeffrey Zients serving as interim director.

Romer's resignation creates another opening at a time when Obama is seeking to highlight the administration's record on restarting growth ahead of November congressional elections.

"The economics team in the Obama administration is in a difficult spot, and losing another person is a little bit worrisome," said Julia Coronado, senior U.S. economist at BNP Paribas in New York and a former Fed staffer in Washington. "The team hasn't been very vocal in discussing what should be done in light of recent weakness in the economy, and in taking a forceful stand."

Parliamentary Snag

Obama also yesterday saw one of his nominees to the Federal Reserve Board hit a parliamentary snag in the Senate.

Peter Diamond, a Massachusetts Institute of Technology economics professor who once taught Fed Chairman Ben S. Bernanke, had his name returned to the White House before the chamber left for a summer break. Don Stewart, a spokesman for Senate Republican Leader Mitch McConnell, said "it is expected that the president will renominate him."

Romer, 51, pushed last year for Obama's $787 billion stimulus package as unemployment rose from 7.7 percent. She quit as a U.S. economic recovery propelled by government spending and financial bailouts show signs of slowing, and unemployment exceeding 9 percent persists near a 26-year high.

"What Obama's team has been doing so far has not worked and voters are going to be going to the polls very unhappy, even distressed, with the economic situation," said L. Randall Wray, research director for the Center for Full Employment and Price Stability, a nonpartisan institute at the University of Missouri in Kansas City studies macroeconomic and monetary policy.

Austan Goolsbee, who is currently deputy on the three- person council, will likely serve as the interim chair, according to two people familiar with the matter.

Typical Tenures

Heading the Council of Economic Advisers hasn't typically been long-term employment for those who have held the job.

Bush's five CEA chairs lasted an average of about 1 1/2 years, ranging from Harvey Rosen's 3 1/2-month stint in 2005 to Ed Lazear's almost three years of service from February 2006 until Bush left office in 2009. The four chairs in the Clinton administration served an average of about two years.

Republican lawmakers such as Representatives Jo Bonner of Alabama and Kevin Brady of Texas have criticized Romer for saying last year that Obama's stimulus would keep unemployment from rising above 8 percent.

"Everybody who pushed for the federal stimulus as having a meaningful impact on the unemployment rate was wrong," said Anthony Danaher, president of Guild Investment Management, a Los Angeles-based investment adviser that manages about $150 million in assets. "So she's not alone."

Employment Decline

A Labor Department report today shows a 131,000 decline in overall U.S. employment in July, with the jobless rate holding at 9.5 percent. Private payrolls excluding government agencies rose by 71,000 after a June gain of 31,000 smaller than previously reported.

"That isn't as strong as anybody wants. We need stronger than that to bring the unemployment rate down," Romer said in an interview today on Bloomberg Television.

Romer "has provided extraordinary service to me and our country during a time of economic crisis and recovery," Obama said in a statement in Washington.

The news came as a surprise to Gerard Roland, chair of the economics department at Berkeley.

"I thought it was a rumor," Roland said in an interview. Because Romer has been on leave from the university, "she doesn't have to clear it with anybody," he said.

If selected for the San Francisco position, Romer would succeed Janet Yellen, who is awaiting confirmation by the U.S. Senate as the Fed's next vice chairman.

San Francisco

"We will not comment on the change at the White House and we've said that we would be making no comment on the search process until its conclusion," said San Francisco Fed spokeswoman Carol Eckert.

As chair of the Council of Economic Advisers in January 2009, Romer called for "immediate action" in the form of stimulus to respond to a contracting U.S. economy. She told lawmakers on July 14 that the economic stimulus package is "on track" to saving or creating 3.5 million jobs.

More than 8 million U.S. workers have lost their jobs since the start of the recession in December 2007. Seven of 10 Americans say reducing unemployment should be the federal government's priority, according to a Bloomberg National Poll conducted July 9-12.

Should she become San Francisco Fed president, Romer would participate in the central bank's policy discussions, and would vote on the interest-rate setting Federal Open Market Committee once every three years, taking her next turn in 2012.

Research Record

Romer "would be an excellent person to be running" the San Francisco Fed, said James Hamilton, an economics professor at the University of California, San Diego. "She has a very solid record of research and proven herself to be very effective in the public-policy sphere."

John Williams, the district bank's chief researcher, also has qualifications to be a candidate for the post as president, according to Bradford DeLong, a Berkeley economics professor.

"It would be extremely strange if John and Christina Romer were not among the leading candidates" to lead the San Francisco Fed, he said.

Romer would bring "a great deal of sophisticated understanding on how to use economic theory to make economic policy," he said. "What Christina has that Janet does not have is an immense focus on the historical record, and immense understanding of how economies have responded to recessions and bouts of inflation in the past."

The San Francisco Fed represents nine western U.S. states that include California, Nevada and Arizona, which were at the epicenter of the collapse in U.S. housing prices. Its district accounts for about 20 percent of the national economy, more than any of the Fed's 11 other regional banks.

Home of Apple

The district is also home to companies such as Apple Inc., Chevron Corp. and Wells Fargo & Co. Sixty-five banks in the region, most of them supervised by the Federal Deposit Insurance Corp., have failed since 2004, for losses totaling about $28 billion.

Romer, born on Dec. 25, 1958, in Alton, Illinois, earned an undergraduate degree from the College of William and Mary in Williamsburg, Virginia, in 1981 and a doctorate from the Massachusetts Institute of Technology in 1985.

From 2003 to 2008, Romer served on the committee of the National Bureau of Economic Research that dates the beginning and end of recessions.

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