Neil Irwin: Wonklog:

Janet Yellen has been confirmed to head the Federal Reserve.

Larry Summers, whom many of the president's advisers favored for the Fed post, published this buzzy op/ed in The Washington Post that sheds light on how he would be thinking about the economy, and monetary policy, if he were the one about to ascend to the big job.

The timing is surely coincidence. But as it happens, the issues Summers analyzes in his piece amount to some of the most important questions that Yellen will have to wrestle with as Fed chair.

Summers looks at the last 15 years or so of economic history and sees a disconcerting pattern. U.S. economic growth has been anemic -- even outside of the crisis years of 2008 and 2009, and despite years of low interest rate policies out of the Federal Reserve aimed at boosting the expansion. (Fun fact: The federal funds rate, the central bank's main interest rate tool, has averaged 2.1 percent since the peak of the Nasdaq bubble in March 2000. It had averaged 5.8 percent during the 14 years before that.)

Summers's argument is that there are deeper problems afoot in the U.S. economy, and that so long as the Fed keeps trying to coax growth through easy money policies, without corresponding efforts by fiscal policymakers to increase demand in the economy or structural reforms to boost the country's longer-term economic potential, we are consigned to a cycle of endlessly expanding credit and asset bubbles.

"If the United States were to enjoy several years of healthy growth under anything like current credit conditions, there is every reason to expect a return to the kind of problems of bubbles and excess lending seen in 2005 to 2007," Summers writes, "long before output and employment returned to normal trend growth or inflation picked up again."

Already, Summers notes, "there are signs of eroding credit standards and inflated asset values." He doesn't specify what markets he's referring to, but I can think of a few possibilities. One of them is exemplified by a friend who recently went to an auto dealership and drove away in a new car without putting up a single dime as a down payment. And the 30 percent runup in the U.S. stock market in 2013 means that a market that looked undervalued relative to corporate earnings a year ago now looks quite possibly overvalued.

Yellen would likely agree with Summers in his policy prescription: That fiscal authorities should spend more on infrastructure and other programs with longterm reforms, creating demand in the economy that would mean the Fed could get back toward higher interest rates sooner than it would otherwise. As Congress did more to support the economy, in other words, the Fed could do less, creating a more balanced type of growth without puffing up a potential credit bubble.

The thing is, no matter what Larry Summers or Janet Yellen think, that isn't the solution that is in the political winds. Republicans in the House would see amped-up government spending on most anything as a non-starter. Democrats run the Senate, but many in that caucus are allergic to anything that opponents could characterize as fiscal stimulus and instead spend more time fretting about deficits than about increasing aggregate demand.

Here's a telling indication of the mood of Congress: In Yellen's confirmation hearing, there were questions about the short-term drag on the economy created by tighter fiscal policy, but no senators of either party tried to solicit her endorsement for a new program of infrastructure or energy investment of the type Summers advocated. The phrase "secular stagnation"--the debate that is heating up among economists trying to explain the disappointing pace of growth in the 2000s--wasn't mentioned at all.

Which means Yellen confronts an old dilemma, the same one that she and current chairman Ben Bernanke have been wrestling with for the last three years or so. The tools they have to try to pump up growth are deeply flawed and can create dangerous side effects. But the central bank is the only policymaking entity in Washington focused on encouraging growth at all.

So the debate has been this: Do we use the tools in our arsenal, even aware of the risks? Or do we allow growth to underperform its potential, leaving millions of jobless by the wayside when we may just be able to help, out of fear of some theoretical risks of a new credit bubble and ensuing crisis.

The Fed's answer this past three years -- with strong support from Yellen -- has been that the unemployment crisis is so severe and the risks from interventionism are small and theoretical enough that, yes, the Fed should employ its full set of tools to try to boost growth. But as financial markets get closer to levels that suggest they are fully valued, and flirt with bubble territory, the cost-benefit analysis may well change.