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Looking Beyond Bernanke, a Fed Nomination Seen Stirring Major Monetary Debate

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Growing talk in financial circles that Federal Reserve Chairman Ben S. Bernanke is unlikely to stay beyond his current term is triggering serious speculation about his successor. The only certainty, however, is that anyone the Obama administration nominates will face a noisy, highly contentious confirmation debate over monetary policies that have governed the fiscal world over the last five years.

A bloc of senators from both sides of the aisle will use the process as a vehicle to debate the quantitative easing the Fed has undertaken to stimulate the economy, the tug of war between a focus on unemployment and keeping inflation in check and, more fundamentally, whether the Fed has been favoring the interests of Wall Street over Main Street during a choppy economic recovery.

"At least for now, Fed nominees are controversial," said Mark Calabria, director of financial regulation studies at the Cato Institute and a former Banking Committee aide to Sen. Richard C. Shelby, R-Ala.

The odds-on favorite to succeed Bernanke is Janet Yellen, the Fed's vice chairwoman, an outspoken advocate for addressing employment issues alongside inflation. Her positions would surely make Yellen a lightning rod for criticism from inflation hawks.

Whether that criticism goes beyond an argument over the proper emphasis for monetary policies, however, is another question. Although most economists and Wall Street analysts expect Senate Republicans would not risk throwing markets into freefall by holding up the Fed nominee, most will concede that all bets are off after repeated congressional fights over raising the debt ceiling and the fiscal dramas of the past two years.

"The dynamic has changed," Calabria said. "I would argue the chairman is as important as any Supreme Court justice."

Bernanke's confirmation votes confirm Calabria's point. In 2006, the Senate approved Bernanke, who was nominated by GOP President George W. Bush, by a voice vote. Only one senator, Jim Bunning, R-Ky., now retired, registered opposition.

When President Barack Obama asked the Senate in 2010, two years after the financial crisis, to approve Bernanke for another four-year term as chairman, 30 senators from both parties voted "no."

Liberals such as Barbara Boxer, D-Calif., and Bernard Sanders, I-Vt., joined with Republicans, including the current ranking member of the Senate Banking Committee, Michael D. Crapo of Idaho, and other Banking members Shelby and David Vitter of Louisiana.

Bernanke's current term expires at the end of January 2014. Even if he wants to remain as chairman for four more years -- which many Fed observers say is unlikely -- the Senate still would need to confirm him.

"Whoever gets nominated, it's going to be a bumpy ride," said Tripp Baird, director of Senate Relations for Heritage Action, the advocacy arm of the conservative Heritage Foundation. Heritage is run by former Sen. Jim DeMint, R-S.C., who voted against Bernanke in 2010

Baird said any nominee, including Bernanke, will have to defend quantitative easing and the Fed's role in keeping interest rates low.

"There will be a lot of tough questions for anybody who has to stand up there in the line of fire," he said.

Inflation Hawks Employed

Beyond Yellen, other names include former Treasury secretaries Lawrence Summers and Timothy F. Geithner; Christina Romer, a former chairman of Obama's Council of Economic Advisers; Roger Ferguson, a former Fed vice chairman; and Stan Fischer, governor of the Bank of Israel.

Dark horse candidates are out there, economic policy experts say, including Sandra Pianalto of the Cleveland Fed, the Boston Fed's Eric Rosengren, Fed board member Jeremy Stein or even Alan Krueger, chairman of Obama's Council of Economic Advisers.

Josh Bivens, director of research and policy at the Economic Policy Institute, said the biggest debate in play for Fed officials is between aggressively trying to spur economic growth and employment versus focusing on the longer-term worry of inflation.

Bernanke's diagnosis, Bivens said, has been that the real danger is an unemployment level that is too high. As a result, the Fed has kept the very short-term interest rates at zero. It has also bought up long-term Treasury debt and mortgage-backed securities to cause longer-term interest rates to fall.

Yellen would most likely continue Bernanke's policies, though she may want to do even more to spur employment.

"With employment so far from its maximum level and with inflation currently running, and expected to continue to run, at or below the [Federal Open Market] Committee's 2 percent longer-term objective, it is entirely appropriate for progress in attaining maximum employment to take center stage in determining the committee's policy stance," Yellen told an AFL-CIO conference in February.

Others, especially on the Republican side, argue the Fed should focus less on unemployment and that its current policies have sown the seeds for inflation. Annual inflation has averaged a bit more than 1.6 percent since 2009 and has not approached the 2.5 percent target Bernanke set for discontinuing the Fed's stimulus programs since February 2012. Some, particularly in the tea party wing of the GOP, have called for the Fed's abolishment altogether.

On the other side of the political aisle, some Democrats contend the Fed's friendly oversight of Wall Street abetted the 2008 financial crisis. And others are skeptical of new authority the Dodd-Frank financial law (PL 111-203) gave to the central bank.

"The Federal Reserve has inherently become more political as a result of its management of the financial crisis," said the Bipartisan Policy Center's Aaron Klein, a former chief Democratic economist on the Senate Banking Committee and former deputy assistant secretary for economic policy in the Obama administration.

"Despite the political pressure against the Fed, the Fed's regulatory authority was significantly expanded under Dodd-Frank, which only makes it a more important position going forward," he said.

Still, many Senate observers say Yellen most likely would win confirmation, and she would have the distinction as the first female Fed chair. "My sense is that Yellen does not have 90 votes, but she's got 60 votes," said Calabria.

Both Geithner and Summers, who have had contentious relations with lawmakers, would face a tougher confirmation path. Romer, who is closely associated with the stimulus measure, also could find the Senate a tough ground.

If past is precedent, the president may well announce his nominee this fall. That would likely allow the Senate enough time to confirm the person by Bernanke's expected Jan. 31 departure date. Bernanke could, however, remain after that deadline until a successor is confirmed.

"In any other time, Janet Yellen, who's been vice chair, you'd think that would be a pretty safe nominee. She is beyond qualified," Bivens said. "I'd bet if she were nominated, she would be confirmed. But you never know."