

Fed vice chair most likely to take over Bernanke's throne

By: Christina Mlynski – July 26, 2013

While Federal Reserve Chairman Ben Bernanke is being hush-hush about his future plans at the central bank, the market believes that he will not renew his tenure at the beginning of next year. Bernanke may pull a fast one and decide to carry on with his leadership at the Fed — unlikely given the fact that President Obama stated the chairman has overstayed his welcome. Nonetheless, the slightest indication that he may hang up his hat has now forced the market to start looking at possible candidates to take over his position.

The most obvious and logical successor to the Bernanke throne is Fed vice chairman Janet Yellen.

Clearly policymakers agree, considering a group of Senate Democrats are circulating a letter that expresses support for Yellen.

The letter, which is reportedly being spearheaded by Sen. Sherrodd Brown, D-OH, is yet another signal that the White House would face a much less complicated political dynamic by nominating Yellen as opposed to the other possible candidate, Larry Summers, according to Compass Point.

"In our view, Yellen would enjoy a far easier path to confirmation than Summers and signals from Senate Democrats this week reinforce that belief," said Compass Point analyst Isaac Boltansky.

Critics are already making public efforts to stop Summers as a contender in the Fed chairman race.

"He would lose as many as a dozen Democrat votes," said Mark Calabria with the Cato Institute. "I am fairly certain that he would not be able to obtain the needed 60 votes."

In other words, Summers has alienated even parts of the president's Democratic coalition.

Yellen's candidacy benefits from specific realities, including her institutional memory due to being on the Federal Open Market Committee since 2004 as well as the recent release of 2007 Fed transcripts — showing that Yellen was concerned about frothiness in markets prior to many of her colleagues.

Additionally, other openings on the FOMC will allow the White House to craft a nomination deal similar to ones it successfully used for the Federal Deposit Insurance Corp and the central bank during the last Congress, Compass Point explained.

Furthermore, Yellen's focus on effective policy message as the head of the Fed's subcommittee on communication puts her possible nomination light years ahead of Summers.

"As we noted in our earlier review of Fed Chair confirmation timelines, the period between Bernanke's nomination and his confirmation was about 100 and 150 days for the first and second term, respectively," Boltansky stated.

He concluded, "Given that Bernanke's current term expires on January 31, 2014, we believe that the official White House announcement should occur by September."