NationalJournal

Fights Over Fed Likely to Continue if Yellen Becomes Next Chairman

By: Catherine Hollander – April 8, 2013

Ben Bernanke's Federal Reserve has been criticized by the Left and Right since the financial crisis.
The central bank is not doing enough to combat the nation's sky-high unemployment, the Left says. The unprecedented steps the Fed has taken to combat unemployment risk running up inflation, the Right says. "What about the other half of the Fed's dual mandate of maximum employment *and* price stability?" they ask as they watch Bernanke announce round after round of stimulus. (For what it's worth, the data show no indications that runaway inflation is anywhere on the horizon.)
Speculation abounds that Janet Yellen, the Fed's vice chair, is likely to replace Bernanke when his second term as Fed chairman ends on Jan. 31, 2014. And with Yellen at the helm, the Fed would be likely to once again find itself under attack.

Yellen's views of the economy hew closely to Bernanke's. Both believe the Fed can—and should—do more to help the economy, specifically through massive rounds of bond-buying known as quantitative easing that are aimed at lowering interest rates, spurring economic growth, and bringing down the jobless rate.

"With unemployment so far from its longer-run normal level, I believe progress on reducing unemployment should take center stage for the [Federal Open Market Committee], even if maintaining that progress might result in inflation slightly and temporarily exceeding 2 percent," Yellen said in a Thursday speech.
Skeptics—some within the Fed—say the very same purchases could inflate the next asset bubble or cause inflation to soar before the Fed can head it off. But Friday's lousy March jobs report gives the central bank more reason to keep doing what it’s doing. It has, after all, pledged to continue buying bonds until the labor market improves "substantially” and to keep its benchmark interest rate near zero until the jobless rate hits 6.5 percent, provided inflation remains in check.

The disagreement over when—and how—the Fed should stop buying bonds, raise interest rates, and shrink its $3 trillion balance sheet would be likely to dominate a Yellen confirmation hearing.
At the central bank’s most recent policy-setting meeting in March, 13 of the 19 members on the committee said they expected to raise the bank’s benchmark interest rate, the federal funds rate, which has been near zero since December 2008, in 2015.
The current vice chair's dovish tendencies are likely to concern conservative lawmakers like Sen. David Vitter, R-La., who has called the Fed's easy-money policies a "sugar

high," and others who have expressed concern about the unintended consequences of the Fed's asset-purchase program.
Yellen, a Democrat, could see one of the closest votes for the chairmanship in the Fed's history. Right now, Bernanke, who received 30 opposing votes for his second term as Fed chief, holds that honor. Second to Bernanke is Paul Volcker, who racked up 16 "no" votes when he was confirmed to *his* second term amid double-digit unemployment in 1983.

The vote for Yellen could be even closer, says Mark Calabria, director of financial regulation studies at the Cato Institute. In order to get the 60 votes necessary for confirmation, she'll need to make clear to Republicans that she hears their concerns and is willing to address them, Calabria said. "There has to be a sense of, we're not just ignoring you," he said.

This would be Yellen's third Senate confirmation for a Fed position; she was confirmed to the Fed's Board of Governors in 1994 and to be vice chair in 2010.