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Countdown to change at the Fed

Bernanke seen leaving at end of his term regardless of election

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WASHINGTON (MarketWatch) — Federal Reserve Board Chairman Ben Bernanke is likely to step down at the end of his term in January 2014 regardless of who wins the U.S. presidential election, many Fed watchers now believe.

As Wednesday's interest rate decision won't come up with a post-meeting press conference, attention is increasingly focused on how November's election will shape the institution.

"I don't see Bernanke staying under either [potential] president," said Irwin Morris, a professor of American politics at the University of Maryland.

Morris said there are two scenarios. If the economy stays weak then the White House will want a change no matter who wins the election. And if things get better, Bernanke "can walk away on a high note, like Tony La Russa," Morris said, referring to the former St. Louis Cardinals manager who retired after a World Series victory.

Bernanke demurred when asked about a possible third term at his last press conference in September. "I am very focused on my work, and I don't have any decision or any information to give you on my personal plans," he said.

But experts said that Bernanke must be worn out after battling the financial crisis and its aftermath.

The Fed chairman's term expires in January 31, 2014. By the end, he would have served for eight years.

His predecessor Alan Greenspan served a little more than 18 years, just shy of the tenure of the longest-serving Fed chairman, William McChesney Martin, who held the post from 1951 to 1970.

Analysts said that it unlikely there will be another Fed chairman with such a long tenure.

“You are never going to see another Martin,” said Morris. “It is a more difficult job than it was, certainly the media attention much greater,” he noted.

Karen Dynan, co-director of economic studies at the Brookings Institution, said that “the Fed chairman is so powerful, in some ways, that it is inevitable that you are going to find people who don’t like the idea of the same person having so much power for so long.”

The Obama re-election scenario

If President Barack Obama were to be re-elected, Bernanke would have a stronger supporter on Pennsylvania Avenue — Obama did renominate the appointee of George W. Bush after all — but still wouldn’t be likely to go for a third term.

“I think Bernanke will tell Obama that he’d just as soon go,” said Bob McTeer, a former president of the Dallas Fed Bank and an admirer of Bernanke.

Joe Gagnon, a senior fellow at the Peterson Institute for International Economics, said he saw only a 20% chance that Bernanke would stay on under an Obama second term.

If Obama is re-elected, experts said that Fed Vice Chairman Janet Yellen would be a leading candidate to replace Bernanke.

Other candidates include former Obama economic adviser Larry Summers, Roger Ferguson, a former Fed vice chairman who is now head of TIAA CREF, and Alan Blinder, also a former Fed vice chair and advisor to President Bill Clinton.

Obama has not commented on the issue.

Life under Romney

Republican presidential candidate Mitt Romney has made clear he is unlikely to ask Bernanke to stay.

In an interview with Fox Business in August, Romney said he wanted a new person at the helm. “I always listen to people who have counsel and advice but my view has been that I would want to select someone who is a new member, excuse me, a new person to that chairman position, someone who shared my economic views, was sympathetic to the needs of our nation, and I want to make sure the Federal Reserve focuses on maintaining the monetary stability that leads to a strong dollar and confidence that America is not going to go down the road that other nations have gone down to their peril.”

Fed watchers believe Bernanke will insist on fulfilling his term and will not leave early if Romney wins. The Fed set the expiration of the chairman's term precisely to get it out of the presidential election cycle.

"I would think Bernanke would want to serve out his term to underline the Fed's independence," said Gagnon of the Peterson Institute.

"The Fed has worked hard to establish reputation as independence from politics and Bernanke would not be inclined to leave the job because of political pressures. He'll stay through the end of his term," added Dynan.

Morris said there is no change in Fed policy that would warrant that kind of pressure for an immediate exit, he said.

"Even if you think the Fed funds rate should be 1%, are you going to push to make the Fed chair leave for that?" Morris asked.

And Romney wouldn't want to spook the market. Mohamed El-Erian, co-chief investment officer at bond giant Pimco, said the critical question if Romney wins is when does he announce a new Fed chairman.

If Romney immediately announces a successor, it would turn Bernanke into a lame duck, he said in an emailed message. The better course of action would be to wait for the summer.

As for who Romney would like, names that often crop up are his top economic advisors Glenn Hubbard of Columbia University, Greg Mankiw of Harvard University, and John Taylor of Stanford University. All three worked for the George W. Bush administration.

Mark Calabria, director of financial regulation studies at the Cato Institute, said that he thinks the Romney camp is casting a wider net that these three candidates.

Analysts said any Romney appointee would be more hawkish.

"Accommodation may be withdrawn faster than Bernanke would like and the market has factored in so far," Brian Gardner, senior vice president of Washington research at KBW.

Laurence Meyer, a former Fed governor and now prominent Fed watcher, said that Yellen, Mankiw and Taylor have been clear in recent speeches about how they would conduct monetary policy.

He estimated that Taylor was the most hawkish and would have wanted to have raised rates already.

Meyer projects that Mankiw would want to raise rates in the second quarter of 2014. Yellen would want to wait until the first quarter of 2015, he said.