BETTER MARKETS

– REPORT SUMMARY –

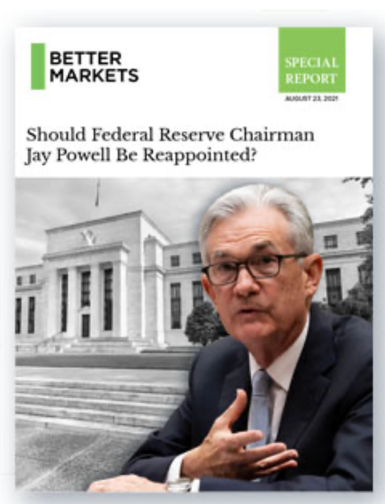
Should Federal Reserve Chairman Jay Powell be Reappointed?

August 23, 2021

The Biden administration is facing one of the most consequential personnel decisions it will make: who should be the Chairman of the Federal Reserve for the next four years? Given that the Fed's policy decisions and activities impact the financial and economic well-being of almost every American, this decision will also have an outsized impact on the success or failure of the Biden administration.

That's because the Fed is, in key respects, the Supreme Court of financial and economic policymaking and its Chairman is in some ways even more powerful than the Chief Justice. This is especially true under the current extraordinary circumstances facing the country, which greatly increase the importance, influence, and power of the position. Thus, nominees for Fed Chair should be evaluated by President Biden with the same degree of care and attention given to a potential Supreme Court Chief Justice.

Given that, this decision should not turn on a short-sighted view of the status quo, stability or continuity, short-term political considerations or, worst of all, keeping the markets "happy." The candidate review process must be searching, comprehensive, and thorough and recognize the importance of factors other than monetary policy, such as financial regulation and stability, the climate change crisis, racial justice issues, financial industry concentration and bank merger approvals, and transparency and accountability. In addition, as to current Chair Jay Powell, that process must also include the Fed's many unprecedented actions in response to the pandemic-caused financial and economic crash in 2020.



The Report Better Markets has issued—"Should Federal Reserve Chairman Jay Powell Be Reappointed?"—substantively reviews all these factors as to Chairman Powell. The Report shows that the overall record of the "Powell chairmanship" is mixed.

Many of the Fed's actions in response to the pandemic were necessary given the unprecedented uncertainty it caused, and the Powell Fed should be given credit for moving rapidly and taking the appropriate approach that the risk of doing too little was greater than the risk of doing too much. But it is important to remember that the scale and scope of those actions were needed not just because of the pandemic, but because of preexisting fragility and instability in the financial system. The unconditional, undifferentiated flood of liquidity into and support for virtually every aspect of the financial system has itself now created new potential financial stability issues. It has led to a significant increase in risk taking in financial markets, increased moral hazard, and driven an even stronger expectation among market participants that the "Fed put" will be there to support markets whenever they get in trouble.

The Powell Fed has not yet begun to publicly address the many key issues exposed by the market turmoil associated with the pandemic with a thoughtful, thorough and comprehensive review of all of its actions, why they were necessary (or not) and their effects and implications. That analysis must be done ASAP and, after allowing for public input, result in a detailed report that includes recommendations to eliminate or minimize the many needless risks in the financial system that make it unnecessarily fragile.

While Powell's leadership and protection of the Fed's independence in the face of the meddling of Donald Trump are to be applauded, his support for the Fed's agenda to deregulate large banks (including in his Congressional testimony last month) during three years of the Trump administration is troubling.

Compounding that is his apparent lack of recognition of the dangers of this deregulatory agenda and the undermining of large bank supervision (particularly in light of his support for that supervision and regulation from when he joined the Fed in May 2012 until Trump was elected in 2016). Rather than facilitating large bank consolidation—the Powell Fed approved the two largest bank mergers since the 2008 financial crisis—there also should have been serious consideration given to the increased risks caused by this deregulation of large banks when the Fed reviewed these mergers. Additionally, the Powell Fed has lagged well behind other developed economies in its consideration of incorporating climate change-related risks into its supervision and regulation and has taken no steps to include considerations of climate change in monetary policy decisions. Powell recently testified that he does not believe climate change currently has a place in such decisions.

On the positive side, Powell has supported the Fed's new monetary policy framework, the work on which began before he became Chair. This new framework has appropriately shifted the focus of the dual mandate from inflation to employment and to considering a more "broad and inclusive" concept of full employment. Sustained gains in this policy could eventually start to close the employment and income gaps, including for communities of color, which combined with increased access to credit would work to close the huge wealth gap in the United States. With the monetary policy shift—and a concerted effort to achieve broader access to credit and capital—the Fed could materially help address financial and economic racial injustice. Finally, Powell has laudably also built upon the enhanced communication and transparency actions of prior Fed Chairs, including increasing the frequency of post-FOMC press conferences and launching the "Fed Listens" event series to engage with members of the public.

With so much at stake, the next leader of the Fed, be it Jay Powell or some other candidate, must only be selected after all these critical issues and policies are rigorously examined. Because the Fed's policies and actions impact virtually every American, their standard of living, and their economic wellbeing, they deserve no less.

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Better Markets is a public interest 501(c)(3) non-profit based in Washington, DC that advocates for greater transparency, accountability, and oversight in the domestic and global capital and commodity markets, to protect the American Dream of homes, jobs, savings, education, a secure retirement, and a rising standard of living.

Better Markets fights for the economic security, opportunity and prosperity of the American people by working to enact financial reform, to prevent another financial crash and the diversion of trillions of taxpayer dollars to bailing out the financial system.

By being a counterweight to Wall Street's biggest financial firms through the policymaking and rulemaking process, Better Markets is supporting pragmatic rules and a strong banking and financial system that enables stability, growth and broad-based prosperity. Better Markets also fights to refocus finance on the real economy, empower the buyside and protect investors and consumers.

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