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5 on 45: Four speed bumps Jerome Powell will face as Fed Chair

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(MUSIC)

PITA: You're listening to 5 on 45 from the Brookings Podcast Network, analysis and commentary from Brookings experts on today's news regarding the Trump administration.

BINDER: I'm Sarah Binder, senior fellow in Governance Studies. President Trump today nominated Jerome Powell to chair the Federal Reserve Board of Governors. That's a big deal.

Every president since Harry Truman has reappointed the sitting Fed Chair from the other party for a second term. The Fed Chair, current one Janet Yellen, was appointed by Barack Obama. She has gotten very high marks from President Trump and many others for how she's managed the economy. Nevertheless, Trump broke with decades of bipartisan practice to replace her with Jay Powell who is a Republican and also has been a governor on the Federal Reserve Board since 2012.

Now it's true that Powell has been one of Yellen's most reliable supporters in setting monetary policy, so this is really a steady-as-she-goes selection. But in choosing Powell, Trump did ignore Senate Republicans, many of whom urged the president to select a hawk a central bank are more prone to steeper and speedier rate hikes. So this is really a markedly partisan move by virtue of passing over Janet Yellen when past presidents would have reappointed her probably for a second term.

So looking ahead, Powell will have at least four speed bumps, maybe curve balls, as he settles into the Fed. First, he does have to be confirmed, and he will be confirmed by the Senate, but this could be one of the most polarizing votes ever to confirm a Fed chair. The last two confirmation votes, Ben Bernanke, a Republican reappointed by Democrat Obama when he was re-nominated for second term he got just over half Republican Senators' votes. Yellan, a Democrat, just got a third of Republican Senators' votes in 2014.

Could Powell face a similarly partisan vote? Well when Obama nominated Powell for the Fed in 2014 fewer than half the Republican senators, who were in the minority, voted for him. Twenty-two of those Republicans are still in the Senate. Will they now

support Powell now that he's a trump nominee? And what about the Democrats who supported Powell when he was an Obama nominee? How many will vote to confirm him now that he's Trump's pick? Powell will get confirmed, but if he faces a close and partisan confirmation vote it would signal again that partisanship is really increasingly spread to the Fed.

Second, how is Powell going to forge consensus at the Fed? I think it's important to keep in mind the Chair is just one person, and Powell has expected to follow on Yellen's gradual path of gradually raising interest rates and shrinking what we call the Fed's balance sheet. So Powell will be probably a voice of continuity, but Trump has three more spots to fill and maybe even a fourth assuming Yellen steps down from the board. So that's four seats out of seven and he could have more. The Senate has also already confirmed Randal Quarles to the supervisory seat who has a much more deregulatory view about financial regulation. Capitol Hill Republicans have urged the president to appoint more disruptive members in terms of monetary policy. If that happens Powell could well have trouble building consensus within the board and across the Fed's broader monetary policy committee.

Third, there's a question about how the Fed will pursue regulation. The Fed, of course, is charged not just with setting interest rates and monetary policy but enforcing financial regulation, most recently Dodd-Frank Wall Street Reform Act, but also to supervise banks. Trump and his economic advisors are no fans of Dodd-Frank. It passed during Obama's White House and it significantly tightened up supervision and regulation in the banking industry. Powell, however, has largely defended Dodd-Frank. He called the Trump Treasury plan [that was] to really lighten financial regulation on the banks, he said that was a mixed bag and there's some of it he won't support. At the same time Quarles, who's been confirmed to the supervisory seat on the board, endorses virtually all of the Treasury report aiming to rollback regulatory costs and burdens of the banking industry.

So what's going to happen here? How would Powell respond if Quarles and a Republican Congress, Trump White House, and a Treasury Department, what if they all

urge the Fed to rewrite rules imposed by Dodd-Frank or to lessen the ways in which they're enforced? What does Powell do then?

Fourth speed bump for Powell, will a Republican Congress ease up on a Republican led Fed? In recent years Congress has pushed back hard against the monetary policy of a Fed led by Obama appointees. Republicans kept predicting that inflation was just around the corner, right, because the Fed kept rates too low for too long. That inflation never occurred, but it didn't stop Republicans from criticizing the Bernanke and Yellen led Feds. Also, Republicans have threatened to curtail the Fed's discretion by requiring the Fed to follow formulaic rules to set interest rates.

So Republicans have been critical across the board of the ways in which Yellen and Bernanke have led the Fed. Does that criticism ease up now that the Fed will be run by Republicans? We'll see. And certainly should another financial crisis or even a more run of the mill recession appear on Powell's watch he will find himself caught between the blame avoiding Congress, an outspoken critic of President, and potentially unruly colleagues at the Fed. So Powell's pragmatic consensus building reputation will surely be stress tested but what lies ahead.

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