

TRENDMACRO LIVE!

On Powell for Fed Chair

Thursday, November 2, 2017

Donald Luskin

Trump's most timid appointment – a market shock avoided, but an opportunity missed.

[The suspense-maximizing hoopla](#) was pure Trump. But it's out-of-pattern for the president who tapped Rick Perry for Secretary of Energy, Betsy DeVos for Secretary of Education and Scott Pruitt for Director of the Environmental Protection Agency to have [selected Jerome Powell as Fed chair](#). If President Donald Trump had wanted a [conservative darling](#), we would have picked John Taylor. If he wanted a swamp-draining reformer, he would have picked Kevin Warsh.

We see this decision as excessively timid, and as a missed opportunity for pro-growth reform of a key global financial institution. *But at least for now it's a low-risk choice, and it takes what we had seen as a major potential shock to markets off the table* (see ["Debt! NoKo! Irma! DACA! Cohn! ...and Other 4-letter Words"](#) September 7, 2017).

- It seems we were right that incumbent Janet Yellen – the safest choice, if that's what Trump wanted, and supposedly seen by Trump just yesterday as ["excellent"](#) – didn't want the job (see ["On Yellen at Jackson Hole"](#) August 25, 2017).
- Among the bold choices, apparently [too many long knives were out](#) for Warsh (see ["Warsh the Reformer, Powell the Plodder"](#) October 3, 2017). We suspect that Warsh is not interested now in any lesser Fed position, even if it were offered.
- As to Taylor, it seems somebody in the administration was wise enough to realize that his monastic commitment to his eponymous [Rule](#) makes him dangerously dogmatic and rigid. *Taylor may yet be nominated for Fed vice chair, which would be his highest and best use*. He would make a good science officer on the Starship Enterprise, like Mr. Spock, but [not a good captain](#) (see ["The Trouble with Taylor"](#) October 24, 2017).
- *The problem is that Jerome Powell is no Captain Kirk. He's more like Chance the Gardener, the Peter Sellers character in [Being There](#) – a pleasant cypher who mumbles comforting platitudes to the powerful and becomes powerful himself.*
- *But unlike Chance, the problem with Powell is that he doesn't believe that [growth will return in the spring](#) – or ever.*
- Unlike Warsh or Taylor – who believe that America and the world [can return to the higher growth rates seen before the Great Recession](#), Powell seems to have internalized the establishment mantra of ["secular stagnation."](#) A lawyer by training and a private equity investor by vocation – not an economist – he is vulnerable to being influenced by the cult of expertise within the Fed staff and on the elite global conference circuit.
- [In a speech early this year](#), Powell claimed that today's record-low productivity growth is because "global trends are at play" – but if he has any idea of what explains those trends, he didn't say. [In a speech last](#)

Update to strategic view

US FED: Powell for Fed chair is a timid low-risk choice that takes a potential shock to markets off the table. But it is a missed opportunity to reform a key global financial institution with a swamp-drainer like Warsh. Conservative darling Taylor may yet be vice chair, his highest use. Powell is bought into the elite mantra of "secular stagnation," and believes that a return to pre-Great Recession growth rates is impossible. If he is proven wrong about that, he is vulnerable to influence by Fed staff to tighten policy in response to false fears of a Phillips Curve trade-off between employment and inflation. Powell has no apparent commitment to deregulation, but that is Quarles' remit anyway.

[\[Strategy dashboard\]](#)

[year](#), he asserted that even if the rate of productivity gains were to triple, the best the US could hope for would be 2% output growth.

- By blaming mysterious “global trends,” Powell absolves the Fed of any responsibility for slow growth, despite the better part of a decade – in coordination with other central banks – of large-scale policy initiatives supposedly designed to help. Indeed, by lowering the bar on potential growth, he declared [“mission accomplished” in a speech this summer](#), claiming that our sluggish economy “is now close to full employment and price stability.” He brags that the Fed’s tentative steps toward policy normalization “are a result of that success.”
- [He pays lip service](#) to policy ideas for improving growth – but they’re the usual exhausted statist prescriptions, including “spending on public infrastructure” and “support for public and private research and development.”
- [And what if he is wrong? What if Warsh and Taylor are right, and America can in fact grow again?](#)
- That may be when the Fed staff whispers into Powell’s ear its most sacred dogma – the dangerously false Phillips Curve doctrine that employment causes inflation, and therefore must be stamped out. If Powell listens, then just when it turns out there are *not* limits to growth, the Fed will step in and limit it anyway.
- To be sure, like many central bankers, Powell has gingerly questioned the reality of the Phillips Curve trade-off, noting in [a speech last year](#) that “the relationship between slack and inflation has weakened substantially over the years.” But it remains for them all a catechism to be recited, whenever a forecast is called for, as Powell did in [a recent speech](#) when he predicted “the labor market should continue to tighten, exerting some upward pressure on wages and prices.”
- Can we at least look to Powell to bring liberating ideas for deregulation to the world’s most powerful financial sector regulator? Sadly, [the signs are not particularly hopeful](#).
- For example [in a speech in July](#) on housing finance reform, his best ideas were “multiple private guarantors who would insure a portion of the credit risk” – you mean like AIG? – “risk-sharing agreements” – you mean like CDO’s? – and “expanded use of credit-risk transfers” – you mean like credit default swaps?
- No wonder Trump passed Powell over – in favor of Randal Quarles – for the position of Vice Chair of Bank Supervision, a role created by [the Dodd-Frank Act](#) (see [“Trump’s New Faces on the Fed”](#) June 5, 2017).
- [For markets, the good news is that Powell isn’t going to shake anything up. But the bad news is that Powell isn’t going to shake anything up.](#)

Contact TrendMacro

On the web at
trendmacro.com

Follow us on Twitter at
twitter.com/TweetMacro

Donald Luskin
Chicago IL
312 273 6766
don@trendmacro.com

Thomas Demas
Charlotte NC
704 552 3625
tdemas@trendmacro.com

Michael Warren
Houston TX
713 893 1377
mike@trendmacro.energy

[\[About us\]](#)

Bottom line

Powell for Fed chair is a timid low-risk choice that takes a potential shock to markets off the table. But it is a missed opportunity to reform a key global financial institution with a swamp-drainer like Warsh. Conservative darling Taylor may yet be vice chair, his highest use. Powell is bought into the elite mantra of “secular stagnation,” and believes that a return to pre-Great Recession growth rates is impossible. If he is proven wrong about that, he is vulnerable to influence by Fed staff to tighten policy in response to false fears of a Phillips Curve trade-off between employment and inflation. Powell has no apparent commitment to deregulation, but that is Quarles’ remit anyway. ▶