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The Case Against Reappointing Jay Powell

5 Reasons Why Progressives May Want a New Leader for the Federal Reserve

A Fed Up Campaign Position Paper

Two cheers for Jay Powell. There is a lot to respect in Federal Reserve Chair Jerome Powell's record, but is that enough for progressives to support his reappointment for the next four years?

Led by Powell, the Fed played an essential role in the response to the COVID economic crisis. Expanded its standing lending facilities at the start, the Fed then managed the multi-trillion-dollar emergency lending programs authorized by the CARES Act. Responding aggressively and creatively, the Fed is rightly seen as helping to keep the financial system from seizing up.

Powell also played a role in Congress' response to the crisis by making repeated public statements that Congress should, alongside the Fed's monetary stimulus, step up with ample direct fiscal stimulus to avert an even harsher recession. This was unusually direct language for a Fed Chair, and Powell's bipartisan credibility helped to correctly center the policy debate on increasing spending.

Outside of his crisis role, Powell nudged the Fed towards an important new direction in its core monetary framework. Powell questioned the value of the standard formulas that the Fed used to balance its all-important "dual mandate" of stabilizing prices and maximizing employment. The result was a rebalancing of policy with a greater emphasis on maximizing employment, especially for Black, Brown and economically marginalized communities where unemployment is historically much higher than the national average, and a commitment by the Fed to run the economy hot until we get there.

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To put it bluntly, a high unemployment rate is racist, an attack on working people and, in many ways, a Fed policy choice. So, Powell's commitment to an improved approach is more than refreshing, it's real progress.

But should President Biden reappoint Powell to lead the Fed for the next four years when his current term expires in January 2022? For people focused on economic justice for working people, especially for Black and Brown communities, the answer is probably not.

The Fed - and the Biden Administration - will be confronting new and different challenges going forward. The central bank must play a leading role, not only to help us recover from the economic crisis but to affirmatively create a more equitable economy for communities that have long been held back. That will require the Federal Reserve to bring all its policy tools to bear, including tools that Powell has chosen to avoid.

Jerome Powell may not be the right person for the next four years. Here's why:

1. **The Changes to the Fed's Monetary Framework Don't Go Far Enough:** If you care about racial and economic equity, making sure that the Fed gets its core monetary framework right is the name of the game. The Fed's commitment to keeping its foot on the economic pedal until there is sustained progress towards the goals set by the Fed's new inflation and employment framework was a good first step. But it must not be the only step. The Fed should embrace a policy that goes beyond the abstract idea of maximum employment by committing to a genuine full-employment economy, that is, an economy in which anyone who wants to work at the going rate is able to find a job. And using this as the benchmark of success, the Fed's policy framework should commit to making use of all its existing monetary tools and deploying new credit policy tools until we get there. This shift will have the greatest impact on expanding the economy while growing wages for those who most need them, and addressing the devastating racial unemployment gap.

   The Biden Administration has placed itself at the forefront of a transformational moment in our country's fiscal policy, as the consensus shifts away from artificial concerns about deficits and towards support for robust stimulus and automatic stabilizer payments to address a weak economy. But the ambition of the monetary policy discussion is lagging far behind, in spite of the recent improvements. *We need a Fed Chair willing to meet the moment by leading a bolder, more transformative monetary and credit policy approach.*

2. **Powell Hasn't Allowed the Fed to Use Its Tools to Support the Real Economy, Holding Back Full Employment:** The Fed made creative and effective use of its monetary tools to support financial markets with massive Fed-backed lending facilities during the crisis. But the Fed did not use its credit-policy tools to support the real economy. This was most glaring when

the CARES Act authorized the Fed to provide much-needed lending to state and local governments, but the Fed imposed unnecessarily harsh lending terms that made the program all but irrelevant, as Fed Up pointed out in our Aiming to Underachieve report. The impact of the small-business-focused Main Street Lending Facility was also limited by the Fed's lending terms. This obstructiveness by the Fed wasn't a surprise; central bankers often draw an artificially bright line between their role in supporting financial markets and supporting the real economy, in part as a way of preserving what they see as their institutional interests.

But it is no longer enough. The Biden Administration is working to update and transform key federal economic policies in order to pursue essential goals such as full employment, wage growth and increased racial equity. Some of the models that have been proposed to help us get there - including new credit policy tools such as national investment authorities, green infrastructure banks, lending facilities for local governments and small businesses - rely in part on backing from the Fed in their financing mechanisms. *We need a Fed Chair who is willing to expand credit policy tools to support the real economy in order to fulfill the Fed's dual mandate by growing the economy and expanding job opportunities.*

3. **The Fed Should Support Automatic Fiscal Stabilizers, But Powell Has Declined Any Fed Role:** Widening support for automatic fiscal stabilizers is one important idea coming out of the economic crisis. Powerful program models include strategic safety net expansions, infrastructure spending expansions, and direct individual payments that are automatically triggered by early recessionary signals. These can be a far more effective way to combat an economic downturn than the current slate of tools. Some fiscal stabilizer models, such as recession insurance bonds, rely on a direct Fed role in the financing, but most do not.

   But one way that the Fed can play an important role in any of these models is by allowing the creation of universal, low-cost banking with "FedAccounts." One model is to provide a Postal Banking account for every resident that is backed by the Fed. This would not only provide safe and low-cost financial services where they are needed, but could also be used for timely and smooth distribution of automatic fiscal stabilizers. The inefficiency of our system for pushing out direct individual fiscal payments and the absurdity of our scattered unemployment system diminished our response to the current economic crisis. FedAccounts can create a smooth mechanism for any automatic fiscal stabilizer program that the Biden Administration wants to create. *But a lack of support by the Fed Chair for this policy breakthrough will stand in the way.*

4. **Powell Hasn't Supported Some Sensible Steps for the Fed on Racial Equity:** The Black Lives Matter uprisings this summer has led to a push for policies that can be implemented to make a difference in racial and economic equity for Black and Brown communities. The Fed's policy framework shift towards an emphasis on maximum employment, which was announced prior to this summer, will have a positive impact for all working people. But with our country's devastating and persistent racial unemployment gap, we won't make enough progress until we move closer to a full-employment economy. The Fed must find additional, immediate policy tools to directly address racial equity.

   One important legislative proposal is to require the Fed Chair to report at the twice-yearly Congressional monetary policy oversight hearings on the extent of racial employment and wage gaps, and what steps the Fed is taking to address them. The proposal doesn't instruct the Fed on what steps it must take, but it would make an important difference by requiring the Fed to center the problem in their research and to justify the outcomes of whatever goals they choose. *But Powell has declined to support this useful new approach, leaving the Fed lagging in the move to address racial equity.*

5. **Powell Has a History of Weakening Prudential Financial Regulations, Which Could Make Monetary Policy More Vulnerable to the Specter of Inflation:** The Fed under Powell's leadership has announced its commitment to a sustained, expansionary monetary policy. But the monetary hawks will push back, using the threat of inflation as an argument against maximum employment. The possibility of problematic inflation can't be dismissed entirely, but the Fed shouldn't pull back until it actually is a problem. After the 2008 crisis, the Fed made the mistake of reacting prematurely to inflation fears with a 2015 interest rate increase that slowed economic growth and led to years of a "jobless recovery" that harmed marginal communities most. Powell has stated that he won't make the same mistake this time.

   In a recent Fed press conference, some business journalists raised the specter of asset bubbles as a leading indicator of inflation risk, tying those bubbles to the Fed's expansionary policy. Powell pushed back, saying that asset bubbles were a matter for regulators to control and should not be an excuse to slow the economy. But Powell has a history of weakening some prudential financial sector regulations, including stress testing and other bank liquidity rules, as well as limiting the scope of oversight by the Financial Stability Oversight Council. *Financial sector regulation must be strong to keep abuses from undermining the drive for economic growth, but Powell's approach to regulation could undermine important employment policy goals.*