Trump nominates Jerome Powell as new Federal Reserve chief

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Despite railing against the easy money policies of the Federal Reserve under chairwoman Janet Yellen during the 2016 election campaign, US President Donald Trump has ensured their continuity by nominating Jerome (Jay) Powell to head the central bank.

Powell, a Republican, who was appointed to the Fed's board of governors by President Barack Obama in 2012, has voted with Yellen on all policy decisions during her four-year term, which will end next February.

He won Trump's nomination over two other contenders, Stanford economics professor John Taylor and former Fed governor Kevin Warsh, both of whom had made some criticism of the quantitative easing measures that have seen trillions of dollars pumped into the financial system.

Powell was described by one financial analyst, cited by Bloomberg, as being a "continuation of the status quo without being named Yellen." Trump departed from the practice of reappointing Fed chairs for a second term, saying he wanted to make his own "mark," but described Yellen as an "absolutely spectacular person."

Powell's nomination, which requires Senate approval, was welcomed on Wall Street. John Silvia, chief economist for Wells Fargo, said while Powell's selection was a bit of a "surprise," given Trump's criticism of Fed policies during the election campaign, it was a reflection of economic and political realities. "Most people in the financial markets would feel a comfortable relationship with Governor Powell," he said.

Goldman Sachs chief executive Lloyd Blankfein praised the selection, saying Powell had a "terrific" background in government service, the Fed and the private sector. The market agreed, with the Dow share index finishing up for the day by some 80 points.

While Powell's assets are not in the realm of some other Trump appointees, he is the richest man on the Fed's board of governors, with a fortune estimated to be around $55 million. He made his money first at the investment bank Dillon Read and then at the private equity Carlyle group. He will be the wealthiest individual ever appointed as Fed chair.

The main factor that appears to have led to his appointment over Yellen is that Powell is more in favour of further deregulation of the financial industry, as is being pushed by the Trump administration and Wall Street.

Last June Powell told a Senate hearing that while he was in favour of protecting the core elements of the regulations put in place under Obama after the 2008 crash, "we should continue to tailor our requirements to the size, risk, and complexity of the firms subject to those requirements."

The Fed is in charge of overseeing these measures. Powell said regulators should "assess whether we can adjust regulation in common-sense ways that will simplify rules and reduce unnecessary regulatory burden without compromising safety and soundness."

While Powell's nomination is expected to pass through the Senate, there has been criticism from sections of the Republicans that he should have been more forceful in expressing his reservations over new regulations, as well as aspects of quantitative easing. According to former Fed chief Ben Bernanke, Powell voiced some scepticism about quantitative easing in 2012 but ended up voting for the measures.

While the announcement barely caused a ripple on Wall Street and was viewed as a decision for continuity, there are contentious issues ahead. The gradual increase in interest rates initiated under Yellen

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and the moves to reduce the Fed's holdings of $4.5 trillion of financial assets under its quantitative easing program are portrayed as a return to "normalcy." But financial conditions are far from what they were before the eruption of the crisis in 2008.

The Fed's "model" for interest rate policy is based on the so-called Phillips curve under which interest rates are shifted upward in line with inflation. This doctrine has been knocked awry by the persistence of low inflation and the continued decline in real wages. Powell, like Yellen, has described the persistence of low inflation as a "mystery."

In a speech in Washington last month, Yellen indicated that policymakers only expect to be able to lift interest rates from their present level of 1.25 percent to about 2.75 percent in coming years—well below previous norms. Therefore, there would be little room to cut rates in the event of a new economic downturn, so a further round of asset purchases could be needed.

Yellen said that because the so-called neutral interest rate, which maintains growth without promoting inflation, was much lower than in previous decades, "we must recognise that our unconventional tools might have to be used again," even before a repeat of the Great Recession of 2008-2009.

In other words, the Fed will continue the flow of cheap money for speculation on Wall Street both through low rates and the outright injection of cash, should this be necessary.

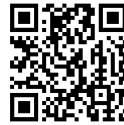
However, these measures are leading to the build-up of contradictions within the financial system, beneath the apparent calm of the recent period, which has seen market volatility fall to historically low levels.

The low-interest rate regime that has been such a boon for speculators, is pushing investors, such as pension funds, which depend on a sustained flow of income from higher quality investments, into more complex instruments in an attempt to increase their returns.

According to Tobias Adrian, the director of the Monetary and Capital Markets Department at the International Monetary Fund, this is creating risks that could result in a severe financial shock.

"The combination of low yields and low volatility facilitates the use of leverage by investors to increase returns, and we have seen rapid growth in some types of products that do this," Adrian told the *Financial Times* in an interview last month. "A sustained increase in volatility would then trigger a sell-off in the assets underlying these products, amplifying the shock to markets," he said.

Adrian's warnings confirm that, far from resolving the contradictions that led to the meltdown of 2008, the Fed's policies—which Powell is set to continue—are creating the conditions for their re-emergence in new and potentially even more explosive forms.



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