Market surge continues ahead of confirmation hearings for New York Fed Governor nominee

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The US stock market hit an all-time high yesterday despite concerns that the coronavirus could have a significant and lasting impact on the global economy.

All three major indexes have entered record territory. The Dow closed more than 275 points higher, a rise of 0.9 percent, the S&P 500 index was up by 0.6 percent and the Nasdaq gained 0.8 percent.

The market rise was engendered by two factors: a belief that the effects of the corona virus will be V-shaped, that is, a downturn followed by a sharp rise as production is increased after any economic danger has passed; and confidence that the US Federal Reserve stands ready to inject still more cheap money into the financial system in the event of any significant market downturn.

The latter belief was bolstered by remarks by Fed chairman Jerome Powell during testimony yesterday to the Senate Banking Committee. According to a report by MarketWatch, Powell said the Fed had two tools to deal with a recession—the buying of government bonds, quantitative easing (QE), and clearly indicating to markets the direction of its interest rate policy, so-called forward guidance.

"We will use those tools—I believe we will use them aggressively should the need arise to do so," he said.

With the Fed's base rate at 1.5–1.75 percent, Powell acknowledged that "we will have less room to cut" and that as a result "it is much more likely that we will have to turn to the tools that we used in the financial crisis." That is, there would need to be a return to QE.

In fact, despite denials by the Fed, QE has already returned in a new form. Since September it has been buying short-term financial assets in order to stabilise the overnight repo market in order to prevent a return of a sudden spike in overnight interest rates to almost 10 percent.

These operations, which the Fed maintains are a merely a technical operation to ensure the repo rate tracks its base interest rate, have seen the central bank's holding of financial assets expand by more than $400 billion to again top the $4 trillion mark.

Despite the Fed's commitment to the financial markets, it has come under continual fire from US President Donald Trump for not doing more, including taking its base rate into negative territory as is the case in Europe.

Trump's criticisms are feeding into a controversy over his endeavour to have Judy Shelton, one of his economic advisers and supporters, appointed to a seat on the Federal Reserve Board of Governors.

Shelton's appearance in a Senate confirmation hearing today has been preceded by a war of words in the pages of the *New York Times* and the *Wall Street Journal*.

Shelton has been a long-time critic of the Fed and an advocate for a return to the gold standard. But the controversy over her appointment centres not so much on her so-called "gold bug" views but that she would be a pliant tool in the hands of Trump.

Long associated with Republican politicians—she was on Bob Dole's presidential team in the 1996 election and joined the Trump team in August 2016—Shelton has questioned the doctrine of Fed independence from the administration. In November 2019, following her nomination for the position by Trump in July she wrote that she saw "no reference to independence" in legislation establishing the central bank.

During the Obama administration, when the Fed was

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lowering interest rates and engaging in QE, she called for interest rate increases, writing that ultralow rates were increasing inequality and failing to boost growth. Under the Trump administration, however, she has called for interest rates to be lowered still further.

In an editorial published on Tuesday, the *New York Times*, wrote that Trump wanted the economy "to grow as fast as possible in the short term, even if that increases the risk of a crash" and in pursuit of his policy of even lower interest rates "he keeps trying to place loyalists on the Fed's board."

It said presidents were empowered to pick those who shared their political views but "not to undermine the goals that Congress has set for the central bank" and the nomination of Shelton "amounts to an attack on the Fed's congressional mandate."

The *Times*, like all other sections of the media and financial establishment, has no differences with the Fed's policy of using monetary policy to boost the stock market in the interests of the financial elites for which it speaks. Its major concern is that the appointment of Shelton is another step in the drive by Trump to "personalise" key sections of the state apparatus.

This concern was expressed in an article published yesterday in the *New York Times*. Noting that the stakes were high, it said: "While individual Fed governors have just one vote out of 12 on monetary policy, she could be a natural pick to be the central bank's next chair should Mr Trump win re-election."

Having spent 18 months blasting his appointee Powell for keeping interest rates too high, it continued, Trump may decide not to reappoint Powell when his term expires in 2022 and Shelton "would be one potential replacement" where she would subordinate "monetary policy to the White House's desires."

The *Wall Street Journal* weighed in yesterday with an editorial entitled "The War on Judy Shelton" in which it declared that "if anyone has a coherent argument for denying the confirmation … we haven't heard it."

The editorial dismissed claims that Shelton is a "gold bug," saying she was not going to return the Fed to the 19th century standard and her interest in gold was "part of the eternal monetary policy debate."

As for the claim that she was inconsistent, the editorial advanced the argument that this should not disqualify her because the Fed had no idea of what it should be doing anyway.

"The inconvenient truth is that central bankers seem to have no clear idea these days about when they should raise or cut rates," it said. It noted that the mounting evidence across the developed world "suggests that sustaining low rates and quantitative easing beyond a crisis to goose growth is destructive."

Having made this point, it then failed to note that this is precisely the policy advocated by Trump and now supported by Shelton.

Declaring that she was "clearly qualified for the position," it continued: "The question for Senators is how much they trust Mr Powell, or the academics and journalists who are trying to tank her. If Senators really think these people are brilliant theorists capable to guaranteeing economic growth and financial stability—all evidence to the contrary—then go ahead and nix Ms. Shelton."

The controversy over the Shelton appointment is another indication that behind the official claims the US is able to weather the storms hitting the global economy—the effects of the coronavirus and the ongoing falls in industrial production in Europe, to give but two examples—there are deep-going conflicts within the ruling oligarchy over the direction of economic policy and which faction should hold the crucial levers of state power.

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