

Amid “enormous economic uncertainty,” Biden reappoints Powell as Fed chair

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After considerable toing and froing within the administration, US President Joe Biden has decided to renominate Jerome Powell for another four-year term as chairman of the US Federal Reserve.

Having boosted the stock market to record highs by pouring trillions of dollars into the financial system over his term, including \$4.5 trillion in response to the March 2020 financial crisis, Powell had strong support on Wall Street with gushing praise for his management of the pandemic crisis.

He also received bipartisan support for his role, including from Treasury Secretary Janet Yellen who made clear her support for Powell’s reappointment some months ago.

But there was opposition to Powell, a Republican initially appointed by Trump, from the so-called “left” of the Democratic party on the grounds he had eased bank regulations imposed in response to the 2008 crisis and was not sufficiently attuned to the issue of climate change.

Last month Massachusetts senator Elizabeth Warren labelled Powell a “dangerous man” to lead the Fed.

Powell was also under something of a cloud because of a scandal which emerged in September involving members of the Fed’s governing body who were found to be active investors last year as the Fed was propping up the market.

Their preferred candidate was Lael Brainard, who was regarded as stronger on regulation. On the issue of monetary policy, however, Brainard has supported all the actions taken by the Fed chair and is regarded, in words of the *Financial Times* (FT), as “mildly more dovish than Powell.”

In the event, Biden sought to have a bet each way, appointing Powell to the top post while elevating Brainard to the post of vice-chair, creating the

“impression of continuity in monetary policy with a more robust approach to regulation” as the FT put it.

In his remarks on the decision to reappoint Powell, Biden gave a nod to the Democratic “left,” saying Powell had told him he would make accelerating the Fed’s efforts to address the risks posed to the financial system by climate change a priority.

Biden said Powell had also underscored the importance of making sure that “our financial regulations are staying ahead of emerging risks be they from innovations and cryptocurrency or the practices of less regulated nonbank financial institutions.”

Warren repeated her opposition to Powell’s renomination as did two other Democrat senators. But the appointment is expected to pass the Senate easily with broad support from both parties.

This is because of the massive expansion of the Fed’s intervention into the financial system to prop it up after the Treasury market froze in March 2020, threatening a full-scale collapse on an even greater scale than 2008.

The Fed conducted this intervention on the grounds that it was necessary to defend jobs and help prop up the labour market. But Powell’s record shows his policies are directed to sustaining the stock market where speculation, funded by cheap money provided by the Fed, has driven it to record heights.

In 2018, the Fed had started to lift interest rates in order to try to restore more “normal” monetary policy. But when Wall Street cracked the whip, Powell rapidly reversed course. After a significant market downturn in December 2018, he promised to end interest rate rises in January 2019 and then cut interest rates in the middle of the year, well before the pandemic struck.

In August last year, amid the signs of rising inflation, Powell initiated a major shift in Fed policy. It would no longer seek to keep inflation to 2 percent but allow it to

rise above that level in order to maintain an average 2 percent rate over time.

According to Powell, it would not move to lift rates when the unemployment had reached low levels—the procedure adopted in the past—and this decision reflected “appreciation for the benefits of a strong labour market, particularly for many in low- and moderate-income communities.”

As the founding American Trotskyist James P. Cannon once remarked, there is always a “good reason” and then there is the real one. In this case the real reason for the policy shift was to assure Wall Street the Fed would not cut off the supply of money that has enabled the multi-billionaire Wall Street oligarchs to rake in money hand over fist during the pandemic.

As inflation started to rise, Powell, maintained it was “transitory”—another assurance to Wall Street that interest rates would not be lifted immediately.

But with inflation going above 5 percent for the past several months, reaching an annual rate of more than 6 percent in October, this claim has become impossible to maintain.

The Fed responded at its last meeting by deciding to taper its monthly purchases of \$120 billion of financial assets—US Treasury bonds and mortgaged-backed securities—by \$15 billion, ending them completely by next June.

In announcing the decision, Powell assured the markets this did not mean interest rates would soon be lifted.

But this course is now under fire and there is a growing chorus of criticism that the Fed is moving far too slowly in the face of rising prices.

Former US treasury secretary Lawrence Summers started the campaign warning several months ago of the danger of an inflationary spiral like that of the 1970s and has since been joined by others.

Last week the chair of Obama’s Council of Economic Advisers, Jason Furman, said the stance of monetary policy should move “in a less expansionary direction.”

“While the Fed has raised rates too much too soon in the past, this alternative timing may result in the opposite error,” he wrote.

The Fed is caught on the horns of a significant dilemma. On the one hand, it fears that moves to lift interest rates will set off a major crisis in financial

markets which have become totally dependent on the supply of ultra-cheap money used to finance increasingly risky bets and the orgy of speculation in so-called “assets” such as cryptocurrencies.

On the other, it fears the rising tide of class struggle as workers strive, in what is taking the form of a rebellion against the suppression of the trade union bureaucracies, to win back the wages they have lost during the pandemic and in the decades that preceded it.

In a tweet on the news earlier this month that John Deere had been forced to restore cost-of-living adjustments (COLA) stolen from workers in 2015, Summers pointed to the wages as the key issue.

“Those serene about inflation should ponder the fact that the new John Deere contract has reinstated previously dropped cost-of-living allowances,” he wrote.

An editorial in the *Wall Street Journal* raised the same issue, saying the restoration of COLA should be “an alarm bell for the Fed” and the longer inflation remained higher the more workers would demand the same.

Speaking on his announcement that he would reappoint Powell, Biden said there was “enormous uncertainty for our economy.”

Powell responded by declaring that the Fed would “use our tools both to support the economy and a strong labour market, and to prevent higher inflation from becoming entrenched” while “vigilantly guarding the resilience and stability of the financial system.”

The problem for Powell in his second term is that these goals are inherently contradictory. The Fed is being driven to tighten monetary policy to contain the growing wages movement sparked by inflation, but at the same time, such is the extent of indebtedness in the financial system, that moves in that direction could see a collapse in asset valuations, both on the stock market and more broadly.



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