

FED SHADOW

Powell or Brainard? Or....?

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Monetary policy won't change either way – but bank regulatory policy gets more hawkish.

Yesterday, when asked about when he will announce whether or not he will renominate Jerome Powell as Fed Chair, [President Joseph R. Biden, Jr. said](#): “Yes, as my grandfather would say, with the grace of God and the goodwill of the neighbors, you're gonna hear that in about four days.”

- We continue to expect that he will renominate Powell, neighbors notwithstanding.
- It's a free option for [the most unpopular president in the history of approval polling](#) to be seen as “doing something” without being seen as “doing too much.”
- There is general support for Powell [in the White House](#), [at Treasury](#), and [in the Senate](#) (among both parties).
- The main opposition comes from Senator Elizabeth Warren (D-VT) who [called Powell “a dangerous man”](#) because on his watch post-Global Financial Crisis bank regulations were relaxed somewhat.
- Democrats have no beef with Powell about monetary policy. Anyone they replace him with, say [FRB Governor Lael Brainard](#) or [San Francisco Fed President Mary Daly](#), will be just as dovish and focused on job creation for minority workers as Powell already is (see [“Video: What you're not hearing about the Fed's liftoff from zero policy rates”](#) October 26, 2021).
- But bank regulatory policy is another matter – Democrats, especially those in Warren's orbit, would surely prefer someone more hawkish. But they can still get that even with Powell's renomination – so long as they appoint a bank-hawk to the open position of [Vice Chair of Supervision](#), the FRB governor primarily responsible [under Dodd-Frank](#) for bank regulation and systemic oversight.

The leading alternative to Powell as Chair is Brainard. And if the Vice Chair of Supervision position is to be filled from sitting Governors (as opposed to nominating a new Governor from scratch – there is one open seat for that), Brainard is in the lead there too, as the only one (other than Powell) to have been appointed by President Barack Obama.

- Brainard is a trained economist (Ph.D. Harvard). She has never held a job outside of academia or government. That makes her like

Update to strategic view

FEDERAL RESERVE:

Biden has said the decision on renominating Powell will come within days. We expect he will be renominated, because it's a way for an unpopular president to “do something” without “doing too much.” Powell has support in the administration and in the Senate on both sides of the aisle. His nomination could survive nay votes by Warren and other progressives, but maybe not her attempts to poison the well. Warren can be appeased by nominating a bank regulatory hawk to fill the open position of Vice Chair of Supervision. Brainard, as an alternative to Powell, would not make any difference to monetary policy, about which they agree. But she has consistently dissented on Fed actions to loosen bank regulations. If she is not bank-hawkish enough for Warren, she could be made Vice Chair of the Board to replace Clarida, and former CPFB Director Cordray could be nominated to Vice Chair of Supervision. There will be no change to monetary policy whoever is nominated; but bank regulation will get more hawkish.

Ben Bernanke or Janet Yellen, and unlike Alan Greenspan or Powell.

- She has left a long record of speeches as [an FRB governor since 2014](#). They have not been notable as theoretical contributions, as some [by Bernanke](#) and [by Greenspan](#) were. Indeed, they strike us as being fairly superficial and, if you forgive us being blunt, opportunistically political.
- Her most recent speech on the economy, [on September 27](#) (two subsequent speeches have not been on the economy, [one on climate change analysis](#), [another on financial inclusion for native Americans](#)), is very much like something Powell might say – inflation is transitory, still plenty of slack in the labor markets (with focus on minorities, where there is even more slack).
- But two older speeches that have always stuck in our mind were a pair made four months apart, just before and just after the election of Donald Trump as President in 2016. Admitting that we can't read Brainard's mind, these speeches at least raise the issue that she – who served in two Democratic administrations – wanted policy to stay dovish for the election, and then to become hawkish immediately upon the surprise election of a Republican.
- In Brainard's last speech on the economy *before* the election, [on September 12, 2016](#) *she was a dove*. She cited "greater slack than previously anticipated" in the labor force, worried about "the persistent undershooting of inflation relative to our target," and said it would be "unwise for policy to foreclose on the possibility of making further gains in the labor market."
- Then just four months later, in her first speech on the economy *after* the election, [on January 17, 2017](#) (the very day Trump was inaugurated), *she was a hawk*. She opined at length based on "speculation" that there would be "significant changes to fiscal policy," stated she was "encouraged by recent signs of gradual progress toward our inflation target," and "pleased to see that full employment is within reach." She didn't call for tighter policy explicitly. That came six weeks later in her next speech on the economy, [on March 1, 2017](#).
- *We'd like to see a more serious, more disinterested person as Fed chair. But as with Yellen and Powell, Chairs tend to learn on the job and, if they do, we go from criticizing them to praising them. But for markets right here and now, the most important thing is that swapping in Brainard for Powell wouldn't make any monetary policy difference at all for the foreseeable future.*
- *Making her the Vice Chair of Supervision is another matter, and a darker one.* She, or anyone else nominated, would replace Trump-appointed [Randal Quarles](#), whose four-year term as Vice Chair has already ended, and who [announced last week](#) his year-end resignation as a Governor. The first Vice Chair of Supervision, Obama-appointed [Daniel Tarullo](#), served *pro tem* because his nomination couldn't get past the Republican Senate – but he functioned in the role nevertheless as a very strong bank-hawk who did much to hold back a renaissance of lending and trading in the recovery from the GFC. *Appointing a bank-hawk like Tarullo will surely be the price Warren will exact not to poison the well for*

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Powell's renomination (because Powell enjoys broad support in the GOP, the most progressive Senate Democrats like Warren could still vote against him when the roll call comes).

- Brainard in one fundamental way is not a natural for the Vice Chair of Supervision – she is an economist, not a lawyer as both Tarullo and Quarles were.
- But her voting record as a Governor on matters of bank regulation firmly establish her as a bank-hawk, consistently dissenting against the relaxations of Obama-era bank capital and trading restrictions ushered in under Quarles. [Those dissents are listed](#) in a particularly stupid article in the *New York Times*, which goes on to claim that she dared to dissent on these matters because she is a woman in a male-dominated profession.
- Our guess is that despite the dissents, non-lawyer Brainard won't be tough enough to satisfy Warren. Our guess is that Brainard will be nominated for Vice Chair of the Board of Governors to replace outgoing [Richard Clarida](#), and the Vice Chair of Supervision nomination will be someone not currently on the Board (so the Senate would have to confirm him or her both as Governor and Vice Chair of Supervision). Without any inside information on this, we think it will be [Richard Cordray](#).
- Attorney Cordray was the first Director of the [Consumer Financial Protection Bureau](#), the new bank regulatory agency designed by Warren before she became a Senator, and created under Dodd-Frank. In that position [he was a scourge to financial institutions of all kinds](#) until he was [hounded out of office by Trump](#) in 2017 (a subsequent [Supreme Court decision](#) ruled that Trump could have simply fired him). He lost in a 2018 run for Governor of Ohio, and now the Biden administration has him parked in the Department of Education as [Chief Operating Officer of Student Aid](#). We can't think of a more logical nomination for an administration that wants a strong bank-hawk to satisfy progressives like Warren and, if we may again be frank, would relish elevating someone whom Trump went to so much trouble to boot out.

So the prospects are mixed here. Powell or no Powell, monetary policy is going to stay very dovish. But bank regulatory policy is going to get more hawkish.

Bottom line

Biden has said the decision on renominating Powell will come within days. We expect he will be renominated, because it's a way for an unpopular president to "do something" without "doing too much." Powell has support in the administration and in the Senate on both sides of the aisle. His nomination could survive nay votes by Warren and other progressives, but maybe not her attempts to poison the well. Warren can be appeased by nominating a bank regulatory hawk to fill the open position of Vice Chair of Supervision. Brainard, as an alternative to Powell, would not make any difference to monetary policy, about which they agree. But she has consistently dissented on Fed actions to loosen bank regulations. If she is not bank-hawkish enough for Warren, she could be made Vice Chair of the

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