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## Will President Biden Re-Appoint Jerome Powell? It Really Doesn't Matter.

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When James A. Baker first visited the Soviet Union in the 1980s, George H.W. Bush's secretary of state was stunned by how desperately run down Moscow was. When Cato Institute co-founder Ed Crane visited in 1981, he remarked on communism's rather distinct and horrid *smell*. Central planning is economically brutal. It certainly was for Moscow, and for all capital cities of countries that experimented with government control of the economy from the proverbial Commanding Heights.

What Baker and Crane saw came to mind while reading the latest piece from *Wall Street Journal* Fed-watcher Greg Ip. Ip's focus on the Fed perhaps understandably has him wondering if President Biden will re-appoint Fed Chairman Jerome Powell when his term expires next February. That Ip is wondering about who will next lead the central bank is the surest sign it doesn't matter. Think about it.

If the Fed were even a fraction as powerful as Ip tells readers (seemingly in winking fashion?), as in if it could plan the economy as Ip seems to contend, then the U.S. economy would be so small as to not rate attention. And pundits would most certainly not contemplate who was running (or will run) the central bank. The irony is that the Fed generates enormous attention from the pundit class precisely because it's not terribly relevant. If it were, the economy would be in such desperate shape that there wouldn't be sufficient wealth to support reporting on the central bank, nor would there be so many credentialed economists eager to curry favor with the same central. Word has it employment at the #1 employer of economists is rather cushy.

To see why, consider Ip's assertion that "few institutions influence" employment and inflation "more than the Federal Reserve." No, he probably doesn't really think that. What influences employment is investment. The latter is a consequence of savings, of unspent wealth. The Fed has neither. It's an outsourced entity of Congress, which means the Fed has no resources just like Congress does not.

No doubt it can buy Treasuries in size in order to not influence the cost of credit, but it should be stressed that the Fed is not playing with its own wealth. In other words, the Fed's swagger is not its own. The central bank, like Congress, can only buy Treasuries in large amounts insofar as the real producers of wealth in the private sector have reduced spending power. Same with Congress.

The Fed is a buyer only to the extent that there's less buying in the private sector. The Fed doles out credit only to the extent that there's less credit being directed to its highest use in the private sector. The Fed is economic intervention by government personified, which means the Fed on its very best day is an economic burden that the economically productive suffer. The good news is that the Fed's burden plainly isn't too great. Evidence supporting the previous claim is the dynamic U.S. economy itself. If the Fed really had the power to plan employment and credit costs, then Washington, D.C. would resemble the Moscow and Leningrad that Baker and Crane saw in the 1980s.

As for inflation, the latter is a decline in the value of the unit. In our case, it's a decline in the value of the dollar. The dollar's exchange rate is not part of the Fed's portfolio. It never has been. Some think the Fed can control the "supply" of money, but it really can't. Supply of money is production determined. That's why there's so much money in Manhattan and so little in neighboring borough the Bronx.

If the Fed could actually control the supply of dollars it would have long ago forced dollars into the Bronx, East St. Louis, Baltimore, and other impoverished locales. To no avail. Money has no purpose sans production that it facilitates the exchange of. Which means market forces dictate supply of money. And if the Fed ever decides to shrink "money supply" given a naïve belief that supply is tantamount to inflation, fear not. The only closed economy is the world economy. Dollars drained from the U.S. by the Fed will be made up for in split second fashion by global sources of credit. No country or individual need ever worry about having too little money. If you're productive, *money will find you*.

The odd thing is that Ip makes another grand pronouncement that's hard to credit. He claims that the Fed not only controls inflation, but does so in precise fashion. Supposedly last summer Powell "unveiled" a new policy whereby the "the Fed would push inflation temporarily above 2% to make up for all the years below 2%." No, that's not serious.

More realistically, prices are how the market economy organizes itself. Without clear and true price signals, lines born of shortages of certain goods combined with oversupply of others would be the routine norm. Please think about this. It's so basic. Just two weeks ago on the east coast there were shortages of gasoline and subsequent lines all based on government threats against "price gouging" when it came to petrol.

That being true, imagine if the Fed could manage the price of everything in a broader sense. We see how inept government handling was of a near-term decline in gasoline supply, so imagine if the drones in Washington managed everything as Ip lightly presumes. Actually, we don't need to imagine. We need only look back to the old Soviet Union to know what things would look like. As Hedrick Smith made plain in his classic book *The Russians*, the 1970s lines for gasoline that Americans loathed (one of the last times politicians imposed price controls on a market good) were what Soviets endured for *everything*.

Yet according to Ip, the Fed will “push inflation temporarily above 2% to make up for the years below 2%.” The joke’s on him, on Powell, and others who follow the Fed. It can’t manage prices. If it could, there would be lines for everything. So while the chin-scratchers can be expected to focus deeply on whether Biden will re-appoint Jerome Powell, most of us won’t care. With good reason. It doesn’t matter. See the dynamic U.S. economy to understand why it doesn’t matter.