



Biden eyes new path for Fed despite Powell pick

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President Biden emphasized continuity and bipartisanship when making his picks for the top two positions at the Federal Reserve this week. But his next slate of nominees could establish an enduring left-leaning majority at the central bank.

Biden on Monday announced he would renominate Fed Chairman Jerome Powell, a Republican well-liked in both parties, and appoint Lael Brainard — the only Democrat on the bank’s Board of Governors — as vice chair.

Biden said both Powell and Brainard would preserve the Fed’s “stability and independence” as the U.S. economy works to shake off the coronavirus recession. Each joined the Fed during the Obama administration, are well respected among policymakers and played integral roles in pushing the bank toward a greater focus on employment.

But Biden still has three seats on the seven-person Fed board to fill and the vacant vice chairmanship of supervision, which sets the Fed’s regulatory agenda, and he says that his new picks won’t be quite like the last. The president said his next nominees will “bring new perspectives and new voices,” along with “long overdue” diversity to the Fed board.

The board has final say over the Fed's regulatory and supervisory actions and automatically serves on the Federal Open Market Committee (FOMC), the larger Fed panel that controls the bank's interest rate movements and other monetary policy actions.

If all three of his future nominees clear the Senate, the Fed board will be chaired by a Republican aligned with much of Biden's view on the economy and effectively controlled by a Democratic majority.

“With three open seats and the vice chair for supervision, there is still a lot of leeway for Biden to make a meaningful and distinct imprint on the trajectory of the Federal Reserve,” said Kathryn Judge, a banking law professor at Columbia University.

“The continuity Biden tried to signal is really a commitment to support the monetary policy and the focus on unemployment that Powell has spearheaded during his leadership, but there's a lot of other issues that could be addressed by the Federal Reserve in coming years.”

While Powell is aligned with most Democrats on maximizing employment until inflation is on track to become untenable, progressives have panned his support for looser financial rules and reluctance to plunge the Fed into the fight against climate change. Liberals have also insisted that the Fed could do more to focus its powers on closing the racial wealth gap, particularly as it deployed trillions in emergency loans at the outset of the pandemic.

For those reasons, Biden faced intense pressure from the left to transform the Fed and replace Powell. Those who opposed Powell's renomination are urging Biden to surround him with bona fide liberals who can push the Fed toward tougher financial rules and climate action.

Progressives and climate activists have focused specifically on the vacant vice chairmanship of supervision as a key test of Biden's plans for the Fed.

“Powell's failures on regulation, climate, and ethics make the still-vacant position of Vice Chair of Supervision critically important,” Sen. Elizabeth Warren (D-Mass.), who opposes Powell's renomination but will vote for Brainard's promotion, said in a statement.

“This position must be filled by a strong regulator with a proven track record of tough and effective enforcement — and it needs to be done quickly.”

Biden says he plans to announce his next Fed picks in the beginning of December, though it could be months until his eventual nominees are vetted and confirmed by the Senate.

While the president will need to appease the restive left, he still faces the challenge of shepherding nominees through a Senate divided evenly between the parties and a Democratic majority controlled largely by the whims of moderates.

Sen. Joe Manchin (D-W.Va.) has fretted for months about the Fed’s ability to control the highest inflation rate in 30 years and seemed questionable to support Powell until a call with the Fed chief last week soothed some of his concerns. Future Biden picks with more lax attitudes toward inflation may not pass muster with Manchin, who has frequently flexed his power to moderate Biden’s economic agenda, or get any support from Republican senators.

Senators have also shown more discretion when vetting Fed nominees, even when put forward by their own party. Republican senators tanked four of former President Trump’s Fed nominees, leaving one spot open for Biden when he took office.

“I don’t know that any of them were incredibly radical, but the perception of someone like them being not in the mainstream, so to speak, creates a problem,” said Norbert Michel, director of the Center for Monetary and Financial Alternatives at the libertarian Cato Institute.

“Depending on the exact makeup of the Senate, it either will fly or won’t fly.”

Biden’s new nominees could be a bulwark against other FOMC members who have pushed the Fed to pull back on stimulus far sooner and quicker than Powell and other members say is necessary. While Powell and Fed officials aligned with the chairman believe inflation is likely to

abate as pandemic-related supply chain snarls ease, several presidents of the Fed's regional reserve banks have openly called for tightening financial conditions sooner.

“We don't know who will get the nod, but you can be pretty sure they will be dovish Democrats, who will offset the clear hawkish shift among the regional voters next year. Indeed, it's easy to see 2022 becoming a year of Washington versus the regions,” wrote Ian Shepherdson, chief economist at Pantheon Macroeconomics, in a Tuesday analysis.

Even so, some Fed scholars have stressed how hard it will be for a new Democratic majority to make a major immediate impact on the central bank. The Fed is notoriously averse to quick changes in policy and spent almost a decade moving toward a new approach to inflation cemented last year.

“They kind of just move slowly to wherever the politics are taking them, so I don't think there's anything radical that's going to happen, even if [Biden] puts on, say, even somebody like Elizabeth Warren,” Michel said.

“It's just not that easy for one person to radically remake the Fed.”