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Trump's Establishment Picks Show Support for Fed Status Quo

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President Donald Trump sharply criticized the Federal Reserve during his 2016 campaign, but his picks to run the central bank point toward policy continuity and stability rather than disruption.

His selections of mostly establishment Republicans who are viewed as pragmatists and not ideologues show how he has opted in favor of more incremental monetary and regulatory policy changes rather than any radical rethink during a period of steady economic growth.

Mr. Trump's choice for Fed chairman, Jerome Powell, served in President George H.W. Bush's Treasury Department. Mr. Powell was originally tapped for the Fed's board by President Barack Obama and backed Ben Bernanke and Janet Yellen during their tenures as Fed chiefs.

The White House said Monday that Mr. Trump would nominate Columbia University economist Richard Clarida to become Fed vice chairman.

Mr. Clarida, who worked at the Treasury under President George W. Bush, has quibbled with some Fed communications in recent years but generally has backed the Fed's policies of slowly raising interest rates from historic lows after an aggressive postcrisis campaign to stimulate growth.

The White House said Mr. Trump also plans to nominate Michelle Bowman, the banking commissioner of Kansas who held several posts in the George W. Bush administration, to the Fed's seven-member board of governors.

Mr. Trump's first Fed nominee, Randal Quarles, who became vice chairman for supervision in October, is a veteran of both Bush administrations.

With the latest Fed selections, "the place looks pretty establishment. It looks very Bush administration-like," said Sarah Binder, a political scientist at George Washington University and author of a book on the Fed.

The Fed personnel decisions have been managed by the White House National Economic Council, which until this month was led by Gary Cohn. The new director is Lawrence Kudlow, who said, "The president has chosen a slate of unquestionably qualified nominees for the Federal Reserve."

Elsewhere in the government, Mr. Trump has tapped outspoken adversaries to head various agencies.

At the Fed, Mr. Trump “has been more mindful of conventional ways of thinking about expertise for these positions than almost anything else in his administration, with the possible exception of the military,” said Lewis Alexander, chief U.S. economist at Nomura Securities.

Mr. Trump was critical of the Fed and its chairwoman at the time, Janet Yellen, during the presidential campaign, saying her low-rate policies aimed to help the incumbent Democratic Party. Once he became president, he took to complimenting her and declared her, like himself, a “low-interest-rate person.”

The White House and many Republican lawmakers now don’t want the Fed to sharply raise borrowing costs for businesses and households.

While Mr. Trump decided not to offer Ms. Yellen a second term as chairwoman, he elevated one of her allies in Mr. Powell rather than pick someone more popular with conservative Republicans and who had promised a break with current leadership, such as Stanford economist John Taylor or former Fed governor Kevin Warsh.

The Fed held short-term rates near zero for seven years after the financial crisis, and has raised them gradually since late 2015 as the economy healed and then strengthened. Mr. Powell has indicated he plans to continue along that path unless the economic outlook changes.

“Despite the campaign rhetoric, it doesn’t make any sense that Trump, whose mantra is ‘jobs, jobs, jobs,’ would want some conservative hawks sitting in those seats,” said Ms. Binder.

A senior administration official said the White House had opted for candidates who might be less aggressive in raising interest rates than textbooks could dictate. That view is at odds with some conservative economists who have said the Fed wasn’t moving fast enough to raise interest rates in recent years.

The official also said the administration was drawn to candidates who might be more skeptical of Fed staff models that show a strong correlation between low unemployment and strong inflation pressures.

Given the high premium Mr. Trump has placed on the stock market’s performance, and the Fed’s importance to investors, Mr. Trump’s more conventional picks are less surprising. “You have continuity with a recipe that’s been working pretty well,” said Peter Hooper, chief economist for Deutsche Bank Securities.

Nominees to the Fed board are subject to Senate confirmation, which could be a hurdle for candidates who favor higher rates or more congressional involvement in monetary policy.

“There are people who I would rather see on the list, but the truth is it’s very difficult to identify people who are in a position to be somewhat reformist” and to get through the confirmation process, said George Selgin, director of the Center for Monetary and Financial Alternatives at the Cato Institute, a libertarian think tank in Washington.

For example, one of Mr. Trump's nominees who has been more critical of the Fed's crisis-era policies, Carnegie Mellon University economist Marvin Goodfriend, has met resistance in the Senate. He has yet to gain any Democratic backers and may be unable to win confirmation if Sen. Rand Paul (R., Ky.) continues to oppose his nomination.

Mr. Clarida will fill the third leg of the traditional leadership triumvirate at the central bank after the New York Fed announced earlier this month that San Francisco Fed President John Williams would succeed its retiring leader, William Dudley.

Messrs. Powell, Williams and Clarida represent a "formidable troika...with an impressive mix of private- and public-sector experience," said Michael Gapen, chief U.S. economist at Barclays.

With the selections of Messrs. Clarida and Williams, the White House and the New York Fed's board of directors, respectively, shared Mr. Powell's desire to find leaders who would provide the Fed with considerable monetary policy expertise. Mr. Powell is the first Fed leader without a Ph.D. in economics in more than 30 years.

While it isn't clear exactly how much input Mr. Powell had in both picks, the selections hint at his strong bureaucratic and political skills, analysts said. "These appointments sure seem like people he would be comfortable having around the table," said Ms. Binder.