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New Fed Chairman – Jerome Powell

Jerome Powell, was recently nominated by President Trump to serve as the next Chairman of the Federal Reserve. He will succeed current Federal Reserve Chairwoman Janet Yellen, if he is confirmed by the Senate, once her term ends in February of 2018. The selection of Powell as the next head of the Central Bank, presents challenges to the historical orthodoxy of reappointment and of selecting economists to the position. Powell, who is a current governor on the Federal Reserve Board, is a lawyer by training and banker by trade. He previously held positions at a number of private equity and investment banking firms, as well as serving in the Treasury Department during the administration of Bush 41. Powell's nomination will mark the first time in nearly 40 years that a non-economist is set to head the Central Bank. Additionally, this will be the first time since the short tenure of William Miller that an incumbent isn't remaining for a second term. (William Miller was appointed to be Treasury Secretary within a little over a year of being appointed Fed Chair. He was also the last Lawyer to head the Fed). The President's penchant for disrupting the status quo is consistent with his selection. However, these two breaks with standard practice may strike market participants as potentially problematic.

Reappointment is often viewed as a characteristic of an independent monetary policy regime. Historically, irrespective of the political party in charge, incumbent Fed Chairs who have done a good job have been reappointed. This maintains a visible and transparent representation of central bank independence. The President passing over Yellen for reappointment may be interpreted as a move towards more coordination or a signal that the administration plans on being more hands-on with respect to monetary policy. While the President has voiced his desire for a low rate environment, his selection of Powell has been seen as mostly a continuation of policy. Moreover, it is important to remember that the Fed operates in a very democratic fashion with policy changes requiring a voting majority. Accordingly, it is unlikely that his appointment would compromise independence beyond any cosmetic sense.

The selection of a non-economist has its detractors and supporters. On the one hand, a non-economist would presumably formulate policy in a more practical manner and not be constrained by theoretical concerns. On the other hand, the development of theoretical foundations have long made policy more predictable and helped establish a more scientific approach at the Fed. Nevertheless, Powell's lack of formal training is easily surpassed by his experience. Powell's previous role on the Board of Governors and his career in the private sector both serve as a testament to his ability to understand and guide policy in the future. Moreover, the Fed's increasing regulatory powers are good fit for Powell whose Governorship responsibilities largely encompassed the emerging financial oversight duties established after the financial crisis.

In conclusion, the appointment of Jerome Powell to head the Federal Reserve is a break from historical practice, yet not unprecedented. Additionally, the concerns that may arise from his selection can be alleviated by both his experience and the Fed's institutional integrity. Both of which may serve to reassure market participants that the new Chair will largely maintain a "business as usual" stance to policy making.

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