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# Trump’s plans to remake the Federal Reserve are starting to hit snags

By Heather Long January 17, 2018

In less than three weeks, the Federal Reserve, which is widely credited with playing a major role in leading the United States out of the Great Recession, will be under new leadership. Current Fed chair Janet L. Yellen is leaving, and Jerome Powell is President Trump's nominee to take her place. But Trump's efforts to remake the Federal Reserve will soon face key tests.

The first hurdle will be the Senate. All of Trump's appointees to the Fed require Senate approval, which has been slow in coming. Trump nominated Powell on Nov. 2, but the Senate didn't act on his appointment before the end of the year, forcing the president to renominate Powell in 2018. Powell, a lawyer and former private equity executive, is generally well liked in Washington among Republicans and Democrats. He worked for the Bipartisan Policy Center for several years before President Barack Obama nominated him to be one of the Fed's seven governors in 2012.

Powell “did well in his confirmation hearing,” says Rep. Garland “Andy” Barr (R-Ky.), who chairs the House subcommittee on Monetary Policy and Trade, which oversees the Fed. “He's a steady hand. I've met with him a few times. We may not always agree with each other on everything, but he's responsive.”

Yet even with a lot of goodwill from lawmakers, the Senate hasn't acted quickly on Powell. On Wednesday, the Senate Banking Committee approved him with everyone voting in favor except for Sen. Elizabeth Warren (D-Mass.), who is concerned that he would be too soft on Wall Street. Now the full Senate must vote on Powell. An aide for Senate Majority Leader Mitch McConnell (R-Ky.) said there's no way the vote will happen this week because of the firestorm over the budget and immigration. That leaves 10 Senate voting days to get him confirmed before Yellen exits, a tight timeline given everything else the Senate is trying to tackle.

Trump has made his priorities clear for a Powell-led Fed: He wants the stock market to keep soaring and the economy to grow faster. To make that happen, Trump would like interest rates to stay low and fewer restrictions on Wall Street banks. But Powell has been clear to stress the Fed's independence — from Congress and the White House — in public appearances since his nomination.

“I'm strongly committed to an independent Federal Reserve,” he stressed several times during his confirmation hearing in late November, adding that the Fed must be “nonpartisan.”

Historically, the chair has played a large role in setting Fed policies on interest rates and bank regulation. Powell would take the helm at a time when the Fed is beginning to reduce a massive pile of assets that it accumulated during the financial crisis to help stimulate the economy. But the Fed is not a one-person show. All decisions on interest rates and asset sales are made by committee. It includes seven Fed governors and five presidents of the regional Fed banks (this year it's the presidents of the New York, Cleveland, Richmond, Atlanta and San Francisco banks).

The seven Fed governors are appointed by the president, but Trump, like Obama before him, has been slow to fill the openings. When Powell takes over, only three of the seven positions will be filled. And only two of them are Trump nominees: Powell and Randal Quarles, who is in charge of bank supervision. (The Senate also has to approve Quarles again by the end of January so he can continue serving as a Fed governor.)

All of this means the balance of power at the Fed will rest heavily on the regional Fed presidents — people Trump did not appoint and has no control over.

“The five bank presidents who vote will have the power,” says Richard Fischer, a former head of the Federal Reserve Bank of Dallas. “And bank presidents don't mind dissenting.”

Regional Fed presidents have tended to be the more outspoken and contentious members of the Fed interest rate committee. They are the ones who typically vote “no” if there are disagreements, and there will be five of them vs. three Fed governors. They also have been appearing on television more frequently and speaking at events nationwide to make their views known between meetings, a tactic not unlike Trump's own tweets and impromptu remarks to the news media.

“The regional Fed presidents now go out and talk to reporters a lot. I doubt that is going to be dialed back,” says Rajeev Dhawan, director of the Economic Forecasting Center at Georgia State University.

Trump also has nominated Marvin Goodfriend, a professor at Carnegie Mellon University, to be a Fed governor, but it could be awhile before he gets on the board. Trump can make three additional Fed nominations, but he does not appear to be in a rush to do so.

There is a lot of speculation about who is on the shortlist for the job, but part of the conundrum for Trump is that conservative economists such as Bush administration veteran Lawrence Lindsey tend to be the most keen to raise interest rates, something that could curtail the “Trump bump” in the market. They think the Fed has kept rates low for too long.

A key test for the Fed this year is how many times it should raise interest rates. In a Washington Post survey of economists this week, 13 out of 16 said the biggest Fed surprise in 2018 is likely to be more rate increases from the Fed than most on

Wall Street want or expect. The Fed is projecting three rate increases, but most economists said four is more likely.

“Investors will be surprised by the number of Fed hikes this year,” predicts Mark Zandi, chief economist at Moody's Analytics. “The deficit-financed tax cuts will juice up growth in 2018 . . . requiring the Fed to respond by raising rates more aggressively.”

If the economy continues to strengthen and the markets continue to rise, the Fed will be under pressure to ensure nothing overheats. What goes up rapidly often comes down harshly. But it's a delicate balance, because increasing rates too quickly has triggered recessions in the past.

“The hawks could soon be in charge at the Fed,” says **Bernard Baumohl, chief global economist at the Economic Outlook Group** in New Jersey. “Troubling news for the economy late this year or in 2019.”

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