



# *FedFin Client Report*

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Tuesday, November 30, 2021

## **Powell Threads His Way Through Macro, Monetary, Regulatory Challenges**

Client Report: **FEDERALRESERVE64**

### **Executive Summary**

Most of the news at today's Senate Banking hearing revolves around Chairman Powell's concession that inflation may not be transitory and economic growth is now so robust that quantitative tightening might proceed more quickly than planned, pandemic permitting. Mr. Powell was pressed on this dramatic turn-around, but none of the questioning appears to dim his chances for rapid confirmation. Secretary Yellen focused her comments on fiscal stimulus and the debt ceiling. In this report, we analyze in depth financial-policy issues, addressing issues such as CBDC, stablecoin, LIBOR transition, and economic inequality. Press reports [today](#) that the White House is considering nominating Richard Cordray as vice chair for supervision triggered significant questioning about the extent to which Mr. Powell will defer to the vice chair; Mr. Powell reiterated considerable willingness to do so at least with regard to allowing board votes on controversial proposals, but demurred when asked by Sen. Warren (D-MA) expressly to allow action on new capital charges offsetting climate risk.

### **Analysis**

#### ***Testimony***

Secretary Yellen argued that the economic recovery is on track, noting GDP now exceeds pre-pandemic levels, unemployment is the lowest since the start of the pandemic, and full employment will be reached two years earlier than estimated by the CBO. She urged Congress to raise the debt ceiling.

Chair Powell said fiscal and monetary policy as well as the healthy financial positions of households are supporting the recovery, but noted that minority families continue to be disproportionately and adversely affected. However, the Omicron variant poses threats to recovery.

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## Q&A

In addition to substantive points below, Sens. Toomey (R-PA), Rounds (R-SD), Daines (R-MT), and Warnock (D-GA) said they will vote for Mr. Powell's confirmation. Several other senators congratulated him without indicating how they will vote. Additional discussions addressed:

- **Stablecoins:** Following his tough letters [last week](#), Chairman Brown (D-OH) asked if it is risky to put control of money in the hands of tech companies via stablecoins. Secretary Yellen said that stablecoins may have greater payment efficiencies but adequate regulation is required as demonstrated in the PWG report ([see Client Report CRYPTO21](#)). Chair Powell agreed as did Sen. Brown, who compared the risks of insufficient stablecoin regulation to that for OTC derivatives and subprime mortgages before the financial crisis. Sen. Toomey argued against a one-size-fits-all framework for stablecoins.
- **CBDC:** Sen. Crapo (R-ID) asked when the Fed's CBDC report will be released; Chair Powell said in coming weeks.
- **VC for Supervision:** Sen. Warren asked if Chair Powell will defer to the new vice chair if he or she wants to bring rules he does not support to a vote; Mr. Powell said his read of the law requires him to allow a vote, but that the vice chair must convince the board to support the proposal.
- **Climate Risk Capital:** Advancing an initiative pending in the House ([see FSM Report GREEN11](#)), Sen. Warren also asked if Mr. Powell would support new capital requirements for climate risk if the vice chair for supervision brought these to a vote; he said it depends on the proposal's specifics.
- **Financial Stability:** Sen. Warren accused the Fed of rolling back rules while new financial stability threats are growing, citing climate change, crypto, NBFIs, and CLOs. Sen. Ossoff (D-GA) asked what Chair Powell sees as the biggest threats to financial stability; he cited cyber, saying also that there are some issues to address in capital markets but these are not systemic.
- **Inequality:** Sen. Ossoff (D-GA) asked if QE worsens inequality by driving up equity and asset evaluations; Mr. Powell said it does not, arguing that because companies get low rates on corporate debt for longer, they have greater debt capacity that benefits the broader economy. Sen. Brown said executive compensation is on average 351 times the wages of average workers, contributing to inflation.
- **LIBOR:** Sen. Tillis (R-NC) asked if legislation is needed to address legacy contracts. Doubtless hoping to advance pending legislation ([see FSM Report LIBOR6](#)), Mr. Powell and Ms. Yellen said it is.

- **OCC Nomination:** Sen. Daines implored his colleagues to reject Saule Omarova's nomination.