



By: *Desmond Lachman*

Will Jerome Powell's legacy be preserved?



History is likely to be as kind to Jerome Powell, the outgoing chair of the US Federal Reserve Board, as it has been to Winston Churchill.

Today, Churchill is mainly remembered for his courageous leadership during World War II, when he mobilized Britons to fend off the Nazi onslaught.

Never mind Churchill's egregious policy mistakes earlier in his political career. Forget his role in Britain's catastrophic military failure at Gallipoli in World War I.

Disregard his decision as Chancellor of the Exchequer in 1925 to return Britain to the gold standard at a considerably overvalued exchange rate, which made the Great Depression all the more painful.

Ignore it all: As the man responsible for Britain's "finest hour," he is forgiven those errors.

Powell's legacy could be similar. Although he played no small part in letting the inflation genie out of the bottle following the 2020 COVID-19 pandemic, he went on to muster a courageous, principled defense of the Fed's **independence** in the face of President Donald Trump's predations.

He has emerged as a vigilant, dignified, and patriotic public servant at a time when such traits are all too scarce in the US government.

Never has a Fed chair faced—and resisted—so much pressure to carry out inappropriate policy changes.

In addition to the vulgar public name-calling and relentless calls for monetary-policy easing, Trump even had the US Justice Department bring spurious criminal charges against Powell for supposed misconduct relating to the \$2.5 billion renovation of the Fed's headquarters.

All this was done with the transparent objective of intimidating Powell into cutting interest rates.

Powell stuck to his guns

Fortunately for all Americans and investors around the world, Powell stuck to his guns in dispassionately pursuing the Fed's dual mandate of price stability and maximum employment. Never did he even consider placating the demagogue.

He stood up to Trump when virtually no one else would. Look to the Republican-controlled US Congress and you will find nothing but spineless acquiescence to Trump's policy excesses and undermining of essential institutions.

Look to corporate America and you will find only CEOs who have sold their souls to remain in Trump's good graces.

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Powell also deserves praise for pulling off what few economists thought possible.

Over the past two years, the Fed has managed to bring the inflation rate down from a 40-year high to close to its 2% target.

Moreover, it has also succeeded in keeping inflation expectations well anchored, even at a time when Trump was hiking import tariffs to their highest level in a century, pursuing mass deportations, and ramming a recklessly expansionary fiscal policy through Congress.

Policy mistakes

Given these achievements, history might well gloss over the policy mistakes that Powell made in handling the pandemic economy.

To his credit, he did help the country avert a depression by swiftly cutting interest rates close to the zero-bound in March 2020, and by resuming the Fed's large-scale balance-sheet

expansion.

But he and his colleagues then erred in keeping **monetary policy** far too loose for far too long.

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Clinging to the mistaken belief that the inflationary shock from COVID's supply-chain disruptions would be transitory, the Powell Fed did not begin hiking interest rates until March 2022.

Worse, the Fed continued to expand its balance sheet by around \$125 billion per month through most of 2021, even when the economy was recovering well and receiving substantial fiscal stimulus from President Joe Biden's \$1.9 trillion American Rescue Plan.

The net result was that, between early 2020 and early 2022, the broad **money supply** increased by an astonishing 40%.

And that, in turn, contributed to a surge in consumer price inflation, which peaked at 9.1% in June 2022.

The economy is once again suffering a serious inflationary shock

Powell will soon be handing the baton as Fed chair to **Kevin Warsh**.

He will do so at a time when the economy is again suffering a serious inflationary shock, this time from Trump's war of choice against Iran—which has disrupted global supplies of energy, fertilizer, helium, and other critical goods—his aggressive, freewheeling tariff policy, and his expansionary budget policies.



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In a final show of patriotic resolve, Powell will be retaining his position as one of the Fed's seven governors.

One hopes that Warsh can muster the same courage as Powell did in resisting Trump's demands for premature rate cuts.

If he does not, we should brace ourselves for another surge of inflation.

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