

# Trillion Dollar Triage

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Creator: [nick-timiraos](#)

## Dialogue

How to Handle a Difficult Stakeholder

Let's frame what the Federal Reserve Board is and the role of the chair of the Fed.

This was an unbelievable time of chaos. Both because of the pandemic and because of the president.

### Some things Powell did in advance:

People who knew or interacted with Powell for long enough agreed on one thing: He had excellent EQ—emotional intelligence. He wasn't necessarily an extrovert, but he was good with people.

He puts a priority on this.

He put together a strong team:

When he comes on board as chair, he has an opportunity to fill a few seats -- he really recognizes the importance of it.

He speaks in plain language and is extraordinarily clear. Example below from 2022-05-04 press briefing:

Before I go into the details of today's meeting, I'd like to take this opportunity to speak directly to the American people. Inflation is much too high and we understand the hardship it is causing, and we're moving expeditiously to bring it back down. We have both the tools we need and the resolve it will take to restore price stability on behalf of American families and businesses. The economy and the country have been through a lot over the past two years and have proved resilient. It is essential that we bring inflation down if we are to have a sustained period of strong labor market conditions that benefit all.

He's playing the long game.

Powell had no interest in engaging in a tough-guy showdown with Trump. His overriding goal was to make sure the US economic expansion—which by July 2019 would be the longest on record—did not end on his watch. But a second, equally critical personal mission was coming into view: make sure the Fed as an institution survives the Trump years intact.

Statement after a dinner

## Powell started following four unwritten rules in public:

1. Don't talk about Trump
2. When provoked, don't return fire.
3. Stick to the economy, not politics.

"We don't try to control things we don't control," said Powell. "We try to control the controllable."

4. Develop allies outside the Oval Office

An important part of communicating with the outside world focused on the 535 people who could make Powell's life more difficult, or easier, if the going got tough: the lawmakers on Capitol Hill. And he wasn't shy about letting people know that he thought this was one of the most important things the Fed chair could do. "I'm going to wear the carpets of Capitol Hill out by walking those halls and meeting with members," he said in a July 12, 2018 radio interview.

What have you changed your mind on?

## Quotes

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There are two sides to Powell's job. One could fairly be described as boring—regulating banks and the supply of credit to keep the economy growing steadily. These decisions on dry monetary policy, however, can have tremendous influence over people's lives. Setting the price of money influences the prices Americans pay on their credit-card balances, their car loans, their mortgages. Changes in the prices of stocks and bonds can influence how much large and small companies are willing to hire, invest, and save. The other side of his job is harder to quantify: maintaining confidence in the financial system. In a few hours on that Monday, investors had erased the Dow's gains for the year

to date. The Fed's job, of course, isn't to respond to normal ups and downs in markets. But when investors and corporate finance chiefs are forced to make very sudden changes in their investment plans, the risk of a market crack-up or panic soars. In late February, those risks accelerated. The Federal Reserve had been created 107 years earlier to prevent a rerun of debilitating banking panics by serving as a lender of last resort—a role that it had embraced during the Great Recession of 2008.

### Chapter 3: "We Would Treat Him Pretty Ugly"

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Montagu Norman, the famously secretive governor of the Bank of England from 1920 to 1944, took as his personal creed, "Never explain, never excuse." Alan Greenspan had started largely in the Norman mold. "Since I've become a central banker, I've learned to mumble with great incoherence. If I seem unduly clear to you, you must have misunderstood what I said," Greenspan quipped shortly after becoming Fed chair. <sup>1</sup> He was only half-joking. Greenspan frequently testified in Congress but gave just one television interview; it occurred at the start of his 18 ½-year tenure, and he never gave a second.

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Powell didn't arrive at the Fed with the same sterling academic credentials as many of his peers, but he did develop a reputation for studying the nuts and bolts of the place. He tackled unheralded operational tasks and technical matters, including an overhaul of interest-rate benchmarks and the management of payment-processing systems. The job could be intimidating with hundreds of PhD economists around, and Powell groused in a good-natured way to a colleague after he had joined the board about how the staff patronized someone who wasn't a trained economist. "They talk to me like I'm a golden retriever," Powell said. But he also used that as fuel to devour briefing books and show up well-prepared for meetings. To tap into an alternate stream of information from the heavily manicured and formal Fed staff presentations, Powell sought outside voices who could help him sharpen critical counterarguments. He rounded out a heavy diet of technical papers by following economic debates on blogs and Twitter (though he didn't tweet). Powell was regarded by colleagues as an exceptionally good listener. He had developed a quirk in high school: repeating sentences backward. As that "talent" suggests, Powell also had a killer memory.

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(In Fed speak, hawks tend to favor higher rates to ward off any risk of inflation, while doves favor lower rates to push unemployment lower.)

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It was in the 1950s that Chair Bill Martin had described the Fed's job as that of the chaperone who removes the punch bowl just as the party is getting rowdy.

## Chapter 4: The King of Debt

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Powell's conversational style reflected his desire to reach an audience he felt the Fed at times overlooked—average citizens who didn't work in markets and whose livelihood didn't require hanging on every word of the Fed chair. They knew the Fed was important, but they might not know much more than that. At his briefings, Powell delivered short answers, used simple language, and spoke in a breezier manner than his academic predecessors—" a Jimmy Stewart of monetary policy," as a former senior Fed economist put it.

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People who knew or interacted with Powell for long enough agreed on one thing: He had excellent EQ—emotional intelligence. He wasn't necessarily an extrovert, but he was good with people. "He's not a braggart. He's not a tell-you-how-great-he-is kind of guy. If you ran into him in a restaurant and you had a conversation with him for an hour, you wouldn't know he's chairman of the Fed—he wouldn't tell you," said David Rubenstein, the Carlyle cofounder. Few elements of the job reflected this strength as well as his interactions with lawmakers. Powell enjoyed the informal discussions he'd had during his confirmation process and, before that, as a governor. The meetings weren't fancy—usually no more than thirty minutes spent dropping by a representative's office to talk about what the economy looked like and to hear what concerns they might have. Powell would often remind them he wasn't an economist, which played well with most members of Congress—neither were they. Powell used the meetings to build a rapport and to see where the Fed might be able to improve its outreach. He also reminded the legislators that in the US system, the Fed's accountability ran straight through Congress—an indirect observation that the Fed was not accountable to the president. Lawmakers appreciated Powell's bridge-building. It helped that he had been nominated by both President Obama and President Trump. Powell also urged humility. The Fed should "give serious consideration to the possibility that we might be getting something wrong," he said at his formal swearing-in ceremony. 11 Powell received 84 votes in the Senate—more than either Yellen or Bernanke had received in 2010 or 2014. The vote was a hopeful sign for Powell that whatever frustration Congress had with the Fed after the financial crisis, there was now the chance of a reset. The economic expansion may have been slow, but it was starting to pay dividends. Powell saw an opening to capitalize on a moment where someone who had backed the at-times-unpopular policies of Bernanke and Yellen could win a wide majority of support. This is a different moment, he thought. This is my opportunity.

## Chapter 5: Hot Seat

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The Powell doctrine As Trump's attacks piled up, Powell had started following four unwritten rules in public. Rule 1: Don't talk about Trump. The first rule led to uneasy laughter, blank stares, and awkward silences. At an October lunch with economists in Boston, Powell raved about the team he had assembled at the central bank, but he sat mute when the subject turned to Trump's criticisms. Rule 2: When provoked, don't return fire. At another on-stage interview, this one at the Dallas Fed in November, Robert Kaplan, the bank president, made a subtle reference to Trump's attacks. "One of the questions from the audience is, 'Gee, I read in the newspaper that you have been mentioned by political leaders over the last several months,'" Kaplan said to nervous laughter in the auditorium. "That was very delicate, Rob," Powell responded. Rule 3: Stick to the economy, not politics. At that same interview, Powell pivoted to Rule 3—stick to the economy. Asked about Trump's attacks, Powell answered that he was focused on low unemployment and stable inflation. "We don't try to control things we don't control," said Powell. "We try to control the controllable." 8 Rule 4: Develop allies outside the Oval Office. Congressional Republicans uniformly lauded Powell's demeanor—a clear sign that his outreach on Capitol Hill was yielding dividends. While he was waiting for a meeting during one such visit, a Republican lawmaker outside the Senate chamber walked up to Powell and told him, "I just want you to know you've got a lot of support up here. More than you think." Another Republican grabbed him by the arm. "You don't have to say anything at all, but I want to give you some feedback," he said. "How you are handling this is brilliant. Exactly the way to go. Don't take the bait." Powell laughed and offered his thanks.

## Chapter 6: "Boneheads"

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A dinner with Trump was the last thing Powell wanted. But Trump was the president, and Powell wasn't going to say no. In January he told Clarida that if the dinner went ahead, Mnuchin would attend—and that Powell wanted Clarida there as backup. On Friday, February 1, Clarida was packing for a business trip to Paris when Powell called. The White House dinner was on for the next Monday, which happened to be Powell's 66th birthday. Paris would have to wait. Michelle Smith, the communications chief, presented a plan to both men during a meeting in Powell's office that Monday, February 4. It was a four-sentence statement that closely followed the Powell doctrine of low-key, apolitical, evidence-driven economic policy. "My recommendation is, regardless of what they say [over dinner], this is the statement that we're releasing as soon as you walk out of the dining room," said Smith. Nobody knew how any meeting with Trump would go, but at least now they knew how it would end. That night, Powell and Clarida arrived at the ornate Treasury Building in an armored SUV, took a private elevator up to Mnuchin's office, and met with the secretary in his dining room. Powell took the press statement from his breast pocket and handed it to the Treasury secretary. "This is not a discussion," Powell told Mnuchin. "We're informing you that we're releasing this statement after the dinner." "It's OK, but obviously we'll need to show this to the president," Mnuchin responded.

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No one mentioned Powell's birthday as the dinner wrapped up. Instead, Mnuchin pulled the statement from Powell out of his pocket and said, "Mr. President, this is the statement the Fed would like to issue." It stated that Powell "did not discuss his expectations for monetary policy" and that the Fed would make its decisions "based solely on careful, objective, and non-political analysis." Trump read it over twice without saying anything. Then, after a pause, he said, "That's OK."

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Chapter 10: Bagehot on Steroids

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Powell spoke with another eight lawmakers who were managing the next bill that was taking shape. Regardless of the lawmaker's party or position, Powell's message was the same: This is the big one. Whatever fiscal support you can provide, do it now, and do it in the form of grants, not loans. The Fed's lending powers could help businesses, cities, or states for a few weeks or months, but ultimately it was Congress that had the power to spend and to help individuals and families.

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Powell's willingness to break boundaries underscored a great irony of the crisis. For years, almost every news article introducing Powell noted that he lacked a PhD in economics. Now, the Fed was being led by a former lawyer with deep experience in corporate finance and considerable political skills at a moment when the Fed was being plunged into dicey questions of law, corporate finance, and politics. He may not have been an economist, but Powell's background almost perfectly suited him to the moment. "Most economists who are central bankers would say, 'Monetary policy isn't the right tool here' or, 'We need to be cautious given that we're central bankers, think of the long-term effects,'" said Randal Quarles, the vice chair for bank supervision. "Someone with Jay's background is going to approach things more by saying, 'OK, well, what's the problem we're facing? How can we address that? How can we make that happen?' That was the approach he took. I think that's why he was more willing to think about things that many central bankers would say are almost off the table even if they are technically possible."

## References

