

Powell Wants Congress to Spend May 13, 2020



The stock market fell sharply for a second day on Wednesday, although the major indexes closed well off their lows. The S&P 500 fell 50 points, or -1.75% to close at 2820. The Dow Jones Industrial Average dropped 516 points, or -2.17% to close at 23,248. The Nasdaq Composite declined 139 points, or -1.55%, closing at 8863 and finally the Russell 2000 index plunged 42 points, or -3.32% to close at 1233.

When the Federal Reserve Chairman speaks, people listen. This morning, Chairman Powell in a speech to the Peterson Institute for International Economics warned of an “extended period” of weak economic growth, and vowed to use the U.S. central bank’s power “as needed”.

Additionally, Chairman Powell called for additional fiscal spending to stem the fallout from the coronavirus pandemic. Knowing that Chairman Powell has a reputation as a “deficit hawk”, his prodding of Congress is notable. Powell argued that without even more fiscal stimulus from Congress, the “... recovery will come more slowly than we would like. But it will come, and that may mean that it’s necessary for us to do more.”



Reuters

Powell, noted that the downturn has been heaviest on those least able to cope. A recent Fed survey estimated that 40% of households with less than \$40,000 in annual income included someone who has lost a job since February. In justifying his call for more fiscal stimulus, Powell opined that “... additional fiscal support could be costly but worth it if it avoids long-term economic damage and leaves us with a stronger recovery”.

The House Democrats today unveiled a new \$3.0 Trillion spending bill designed to provide among other things, relief for state and local governments; a second round of direct payments to taxpayers (\$1200 per person, and up to \$6000 per household); hazard pay for essential workers who face heightened risk during the crisis; coronavirus testing and contact tracing; an extension of the \$600 per week federal unemployment insurance benefit through January; rent, mortgage and utility assistance and other relief. The package is expected to pass the house and will undoubtedly be debated fiercely in the Senate.

As we have said throughout the crisis, we endorse policies that keep employees tied to employers and prevent short-term liquidity problems from becoming long-term solvency problems. Chairman Powell is saying that monetary policy alone will be insufficient to fill the hole in the economy – that makes us listen.

