Sherrod Brown:

... their income from a paycheck each month, not an investment portfolio. It's those same Americans who stand to lose the most at the Fed's actions to curb inflation go too far. No matter what goes wrong in our economy, a global pandemic, a war in Eastern Europe, weather disasters, profits somehow always manage to go up. Workers are left paying the price. As you've noted, Chair Powell, the Fed's tools are only one element in our fight against inflation. It's a complex problem. Interest rates are a single we know blunt tool. Raising interest rates can't rebuild our supply chains and fixed demand imbalances from the pandemic. Raising interest rates won't end Russia's brutal invasion of Ukraine. Raising interest rates won't prevent avian flu from devastating one third of our egg supply or weather disasters from destroying key crops. And raising interest rates certainly won't stop big corporations from exploiting all of these crises to jack up prices far beyond the increase in their costs.

Last year, corporate profits at a record high. Corporate PR chiefs assure us that these companies just have to raise prices. Their costs are going up. The workers just want to be paid too much. They have no other choice, they tell us. Yet when you look at their profits and their executive salaries and their stock buyback plans, sure doesn't look like corporations have exhausted every available alternative. It's so brazen. Even global bankers called in the Fed to identify this. Profiteering is one of the biggest drivers of inflation. Paul Donovan, chief economist of Global Wealth Management at UBS wrote, "The Fed should make clear that raising profit margins are spurring inflation. Companies have passed higher costs onto consumers, but they've also taken advantage of circumstances to expand profit margins. The broadening of inflation beyond commodity prices is more profit margin expansion than wage cost pressures." Think about that from a chief economist at UBS.

I'll say it again. "These companies have taken advantage of circumstances to expand profit margins. The broadening of inflation beyond commodity prices is more profit margin expansion than wage cost pressures." Understandably, the Fed can't force corporations to change their ways or rewrite the Wall Street business model on its own, but the Fed can talk about it. High interest rates, falling wages, increasing unemployment are all hallmarks of failed policies that end up helping Wall Street, the largest corporations in the country, the wealthiest people in the country. Because let's be clear what we're talking about when people use the economic speak that can cloud this conversation. Cooling the economy means laying off workers. Lowering demand means workers get fewer raises. Of course, there are times when the Fed must act. We can't allow inflation to become entrenched. We've seen encouraging trends that isn't happening. And there are other ways we can bring prices down instead of lowering demand.

Again, making people poor, laying people off, denying worker raises, we can speed up and strengthen our supply chains. We can bring critical manufacturing back to the US. We can rebuild our infrastructure. It's what we're doing with the CHIPS Act, with the Inflation Reduction Act, with the bipartisan infrastructure bill. For the first time in decades, we're finally recognizing the damage that I and many of my colleagues warned the corporate offshoring would do to our economy. Look at East Palestine, Ohio about community that Senator Vance and I have visited a number of times recently. America learned about this small town last month when a Norfolk Southern train derailed and spewed hazardous material into this community. East Palestine is more than just a disaster headline. Columbiana County was once the center of American ceramics manufacturing at one time producing 80% of ceramics, of dishware in this country. One county produced 80% of it.

When I was there last week, I was talking to the sheriff at the 1820 Candle Company. He was talking about how the last one closed just a few years back. Like so many industries, these jobs moved overseas and we know why. The same reason Norfolk Southern cuts cost at the expense of safety, eliminating one third, one third of its workforce in the last 10 years. Then you're surprised with these derailments. It's the same reason corporations now keep prices high even as supply chain stabilized. It's the Wall Street business model. Chair Powell knows that, I know that, my Republican colleagues and Democratic colleagues know that. It's a Wall Street business model. Quarter after quarter, corporations are expected to cut costs at any cost. They skimp one safety, they move production overseas. The countries where they can pay workers less because of trade deals that they lobbied for. And Wall Street demands, they post profit increases even in the middle of a global pandemic.

That's the problem with our economy and not only will higher interest rates not solve it, if they're overdone, they'll make it worse. We can't risk undermining one of the successes of our current economy. For the first time in decades, workers are finally, finally starting to get a little power in this economy. Unemployment is in historic low, 3.4%. That's not just a number. That means Americans have more opportunities, more options. Even in places that have seen a lot in recent years. It means people have the power to demand raises and retirement security and paid sick days and some control over their schedules. That means more Americans have the dignity. Have the dignity that comes with a good job that provides for your family. We must hear, ensure that all Americans have the opportunity for that dignity of work. It's a critical time. The consequences of missteps could be severe.

Mr. Chairman, two more things that affect your job. It's not just monetary policy that threatens American pocketbooks. Some of my colleagues have threatened the nation's full faith and credit by holding the debt ceiling hostage for partisan politics. Instead of paying our bills on time, they're essentially threatening all Americans. The Fifth Circuit's Consumer Financial Protection Bureau ruling could also cause unimaginable instability and chaos for families, for consumers, but also as the Chair knows for a financial system. The Fifth Circuit is Wall Street's... No doubt about it. The Fifth Circuit is Wall Street's favorite courthouse. It recently ruled the CFPB'S independent funding. If funding is unconstitutional, if the Supreme Court upholds the Fifth Circuit's ruling, it won't not only devastate CFPB, it will threaten the independent funding of many other federal agencies including the Federal Reserve. I look forward today, hearing today's hearing how the Fed will balance its dual mandate and continue to promote an economy where everyone who wants a good job can find one, an economy that works for everyone. Senator Scott. Sorry.

Tim Scott:

It's fine. Good morning, Chairman Powell. Sitting here, looking at my prepared remarks, thinking about A, there's an opening coming where Vice Chairman Brainard is moving on. I think it's really important for us to make sure that all the information that we need in order to make a good decision on the next nom that we have in a timely fashion. So I would really implore the Chair to make sure that happens that every question, every questionnaire that is asked from the person we get. Every member of this committee has their questions answered in a timely fashion and that the staff has their answers in a timely fashion. Listening to Chairman Brown, I thought to myself, "Fascinating, truly fascinating." I concluded that... Well, I know Chairman Brown pretty well. I am sure he is sincere in his ramp, but let me just say this.

Spending and printing trillions of dollars, caving to the radical left in this country, seeing policies posited and then implemented that led to the worst inflation in 40 years. Seeing our inflation at 9.1%. Seeing American families struggle because of the weight of the government on their shoulders. Seeing the devastation from South Carolina to Ohio is unbelievable that the progressives in this country who caused a 9.1% inflation with in turn somewhere besides in the mirror to see the absolute devastation caused by their out of control spending is remarkable. Remarkable. To stop the out of control inflation caused by the out of control spending, the Fed steps in to cool the economy. Well, the definition of cooling the economy is necessary because we've seen the most radical approach to a problem that was in our rearview mirror being used as a Trojan horse to bring in a level of socialism and spending that our nation has not seen in my lifetime.

The facts are very simple. When you get to 9.1% inflation in this nation, as a kid who grew up in a single parent household, mired in poverty, a 40% today, a hundred percent just a year ago, increase in the gas prices devastates single mothers around this country. For seniors on fixed income whose savings are being depleted with an average cost just last month of a $433 increase because of inflation. For my friends on the other side of the aisle to look anyplace besides a mirror, I find stunning. The truth is that when your food prices go up over 20%, when your electricity's up over 20%, you have to ask yourself, "Where in the world are they? They cannot be in this... It must be an alternate universe where in fact it's okay for us to see prices go through the roof and our economy not stumble, but fall into a ditch. Why are we in the ditch?" Because progressives used the pandemic as a way to usher in a form of spending that takes the money out of the pockets of everyday Americans and puts it in the coffers of the government.

There is a better way. The better way is to trust the American people. And when you do so, we don't have to have the Fed come in and raise interest rates, so high to quell the challenges in our economy so that today versus 18 months ago, the price of the same house for your mortgage payment is twice as high. Why? Because of the runaway spending of our friends on the other side of the aisle. I'm sure I do not have time for my opening comments. What I will say without any questions, as I look around the country and I ask myself, "How devastating is it that today it costs 433 more dollars than it did a year ago?" The answer is, it is a crisis. When the average family in our country just a couple years ago didn't have $400 in their savings for an emergency. To have prices go up by this amount, it's devastating. To have a conversation about rents around the country, looking at the inflationary effect and the absolute devastation of a snarling supply chain that we haven't seen in my lifetime run by my friends in the progressives. Unbelievable.

But to get to you, Chairman Powell. One of the comments that you've made that I think is really important and one of the speeches that you gave in January, and I apologize for my rant. I just wanted to make sure my rant was consistent with my friend here. It is essential you said, that we stick to our statutory goals and authorities and that we resist the temptation to broaden our scope to address other important social issues of the day. Taking on new goals however worthy without a clear statutory mandate would undermine the case of our independence. You further noted that and I quote, "Without explicit congressional legislation, it would be inappropriate for us to use our monetary policy or supervisory tools to promote a greener economy or to achieve other climate based goals. We are not and will not be a climate policy maker." Do you still stand by those comments?

Jerome Powell:

I do.

Tim Scott:

Thank you. Finally, I know we're not in the question. I know. I get it. Finally-

Sherrod Brown:

You now have four minutes and 12 seconds for this.

Tim Scott:

Yes. I knew the Chairman would dock that for my time. And I appreciate you doing so.

Sherrod Brown:

With the sense of humor.

Tim Scott:

With a great humor. Finally, several of my Republican colleagues and I sent a letter to you discussing Vice Chair of Supervision, Michael Barr's plan to conduct a holistic review of capital standards. I look forward to discussing those capital standards during my Q&A and I will thank you for our recent conversation that we had that helped illuminate some of the necessary challenges that we face as a nation and your answers to it. Thank you, Mr. Chairman.

Sherrod Brown:

Thank you. Speaking of illuminating, thank you, Senator Scott.

Tim Scott:

Yes, Sir. Thank you for allowing me to use this-

Sherrod Brown:

Yeah. Today, we'll hear from Chair of the Federal Reserve, Jerome Powell and monetary policy in the state of our economy. And I don't expect Chair Powell to weigh in on the mini debate we just had. But I think we all know that the debt increase was much larger under President Trump and a Republican senate than it has been since. Chair Powell, thank you for your service and your testimony today.

Jerome Powell:

Chairman Brown, ranking member Scott and other members of the committee, I appreciate the opportunity to present the Federal Reserve's semi-annual monetary policy report. My colleagues and I are acutely aware that high inflation is causing significant hardship. And we're strongly committed to returning inflation to our 2% goal. Over the past year, we've taken forceful actions to tighten the stance of monetary policy. We have covered a lot of ground in the full effects of our tightening so far or yet to be felt. Even so, we have more work to do. Our policy actions are guided by our dual mandate to promote maximum employment and stable prices. Without price stability, the economy does not work for anyone in particular. Without price stability, we will not achieve a sustained period of labor market conditions that benefit all. I'll review the current economic situation before turning to monetary policy. The data from January on employment, consumer spending, manufacturing production and inflation have partly reversed the softening trends that we'd seen in the data just a month ago.

Some of this reversal likely reflects the unseasonably warm weather in January in much of the country. Still, the breadth of the reversal along with revisions to the previous quarter suggests that inflationary pressures are running higher than expected at the time of our previous FOMC meeting. From a broader perspective, inflation has moderated somewhat since the middle of last year, but remains well above the FOMCs longer run objective of 2%. The 12-month change in total PCE inflation has slowed from its peak of 7% in June to 5.4% in January. As energy prices have declined and supply chain bottlenecks have eased. Over the past 12 months, core PCE inflation, which excludes the volatile food and energy prices was 4.7%. As supply chain bottlenecks have eased and tighter policy as restrained demand inflation in the core goods sector has fallen. And while housing services inflation remains too high, the flattening out in rents evident in recently signed leases points to a deceleration in this component of inflation over the year ahead.

That said, there's little sign of disinflation thus far in the category of core services, excluding housing. A category that accounts for more than half of core consumer expenditures. To restore price stability, we'll need to see lower inflation in this sector and there will very likely be some softening in the labor market conditions. Although nominal wage gains have slowed somewhat in recent months, they remain above what is consistent with 2% inflation and current trends in productivity. Strong wage growth is good for workers but only if it's not eroded by inflation. Turning to growth. The US economy has slowed significantly last year with real GDP rising at a below trend pace of 0.9%. Although consumer spending appears to be expanding at a solid pace this quarter, other recent indicators point to subdued growth of spending and production. Activity in the housing sector continues to weaken, largely reflecting higher mortgage rates. Higher interest rates and slower output growth also appear to be weighing on business fixed investment.

Despite the slowdown in growth, the labor market remains extremely tight. The unemployment rate was 3.4% in January, its lowest level since 1969. Job gains remained very strong in January while the supply of labor has continued to lag. As of the end of December, there were 1.9 job openings for each unemployed individual close to the all-time peak recorded last March. While unemployment insurance claims have remained near historical lows. Turning to monetary policy. With inflation well above our longer run goal of 2% and with the labor market remaining extremely tight, the FOMC has continued to tighten the stance of monetary policy. Raising interest rates by four and a half percentage points over the past year. We continue to anticipate that ongoing increases in the target range for the federal funds rate will be appropriate in order to attain a stance of monetary policy that is sufficiently restrictive to return inflation to 2% over time.

In addition, we are continuing the process of significantly reducing the size of our balance sheet. We are seeing the effects of our policy actions on demand in the most interest sensitive sectors of the economy. It will take time however, for the full effects of monetary restraint to be realized especially on inflation. In light of the cumulative tightening of monetary policy and the lags with which monetary policy affects economic activity and inflation, the committee slowed the pace of interest rate increases over its past two meetings. We will continue to make our decisions meeting by meeting, taking into account the totality of the incoming data and their implications for the outlook for economic activity and inflation. Although inflation has been moderating in recent months, the process of getting inflation backed down to 2% has a long way to go and is likely to be bumpy. As I mentioned, the latest economic data have come in stronger than expected, which suggests that the ultimate level of interest rates is likely to be higher than previously anticipated.

If the totality of the data were to indicate that faster tightening is warranted, we'd be prepared to increase the pace of rate hikes. Restoring price stability will likely require that we maintain a restrictive stance of monetary policy for some time. Our overarching focus is using our tools to bring inflation back down to our 2% goal and to keep longer term inflation expectations well anchored. Restoring price stability is essential to set the stage for achieving maximum employment and stable prices over the longer run. The historical record cautions strongly against prematurely loosening policy. We will stay the course until the job is done. To conclude, we understand that our actions affect communities, families, and businesses across the country. Everything we do is in service to our public mission. At the Federal Reserve, we will do everything we can to achieve our maximum employment and price stability goals. Thank you. I look forward to your questions.

Sherrod Brown:

Thank you, Mr. Chair. There are 23 of us on this committee. Almost everyone will be here today. I ask each of us to stay as close to the five-minute mark as we can because we have votes at 11:30. So thank you all for your cooperation. Chair Powell, thank you. Job growth is strong as unemployment remains historically low. You might not know that from the opening statements. Many drivers of inflation, corporate greed, rising inequality, supply chain disruptions, Russia's bestiality if you will in Ukraine won't get better because of interest rate increases. Every indication is that this post pandemic economy is different. Should we be worried Mr. Chair, that the Fed is treating this economic period as it has in the past instead of reacting differently?

Jerome Powell:

Thank you, Mr. Chairman. So we've been aware since the very beginning and have discussed this public on many occasions that there are some differences this time. We in particular have not seen the kind of supply side collapse that we saw at the very beginning of the inflation outbreak. Also, the outbreak of a war which had significant effects on commodity prices a year ago. So all that is different. There are some similarities. There is a mismatch between supply and demand. You can see that in the good sector still, you saw it in housing prices going up over 40% since before the pandemic and you see it in the labor market where we have 1.9 job openings for every unemployed person. So we're well aware that this particular situation involves a mix of cycles of... Sorry, of forces, not all of which our tools can affect, but there is a job here for us to do in better aligning demand with supply.

Sherrod Brown:

Okay. Understanding you have limited tools to address inflation in our conversations in the past show my concern about continued rate increases that may not actually address the root cause of inflation. They hurt workers and many of us contend we can't follow the same old playbook. Next question. Last year, three banking regulators issued proposed updates on the Community Reinvestment Act to account for changes in our banking system. My question is, does the Fed remain committed to work with FDIC and OCC to finalize a CRA rule and when will that rule likely be finalized?

Jerome Powell:

Yes, we do remain committed and I believe we are in broad agreement with the other two agencies on the revisions to the rule. So now we're in the process of writing all that down and that'll take some time and then after that of course, it will come to the board of Governors for a vote and that'll involve briefings and discussions. I can't give you an exact date, but it will be-

Sherrod Brown:

But as quickly as possible.

Jerome Powell:

Yes, but it will be some months.

Sherrod Brown:

Okay, thank you. Banks, whether the shock of the COVID-19 shutdowns mostly because of the fiscal response provided by Congress. We now see a spike in loan delinquencies and increase in overall risk. Banks are again plowing billions, billions as many other corporate leaders always defended by people on that side of the aisle. In the stock buybacks, which makes me concerned that if there's a downturn in the economy, banks could end up with too little capital. That's why I'm worried about any potential rollbacks of safeguards or regulations. Can you assure me that the Fed will keep capital requirements strong and exercise more long-term forward-thinking than corporate CEOs that seem to be focused on the short term?

Jerome Powell:

I can assure you as to the first part that we'll keep capital requirements strong.

Sherrod Brown:

I didn't expect you to comment on... Give me an opinion about your looking more forward than companies that look at the short term benefits of stock buybacks. Mr. Chair, when you last testified to ask you about the risk posed by crypto assets, stablecoin, the Fed and other regulated possibilities. How's the Fed evaluating the risks of crypto related activities by your supervised institutions?

Jerome Powell:

So this is something we've been quite active in this area and I'll say that we believe that innovation is very important over time to the economy. We don't want to stifle innovation. We don't want regulation to stifle innovation in a way that just favors incumbents and that kind of thing. But everyone else, we're watching what's been happening in the crypto space and what we see is quite a lot of turmoil. We see fraud, we see a lack of transparency. We see run risk. Lots and lots of things like that. And so what we've been doing is making sure that the regulated financial institutions that we supervise and regulate are careful, are taking great care in the ways that they engage with the whole crypto space and that they give us prior notice and we've issued along with the FDIC and the OCC, a number of issuances of notices to that effect.

Sherrod Brown:

Thank you and I will close with this. I've long pushed for the Fed to prioritize workers and for the leaders of the Fed reflect the diversity of our country. We've made progress, but our work is not done. We have a new opening. Understand it's not your job to appoint the new Fed member of... We have a number of upcoming vacancies at the Reserve Banks. I support Senator Reed from Rhode Island, Senator Menendez from New Jersey and other colleagues who are pushing for more diverse voices at the Fed. Senator Scott.

Tim Scott:

Thank you, Chairman. Obviously, the Chairman and I both have strong passions about the challenges that we face as a country. The one thing that I do believe that we agree on is the importance of having a strong capital markets as it relates to making sure that Americans have the ability to continue to grow their businesses and to solve their challenges. And frankly, I hope that we get there. Building on the same comment that Chairman had [inaudible 00:27:34] own capital standards is where I'm going to go with my thoughts today. When I think back on these last few years, it's hard not to recognize extraordinary efforts. Our financial institutions of all sizes frankly undertook to administer a program like the PPP. All while weathering a shutdown of our global economy. I welcome your thoughts, but from my viewpoint, our banking system was resilient. Our financial institution stepped up and delivered aid to support families and businesses every single day. That's why Vice Chair Barr's broad comments around holistic review of our capital troubled me so much.

We should be laser focused on our economy and addressing the needs of everyday Americans trying to forge a new future and helping them open the door to opportunity. As you and I both know, capital and its quality must be continually scrutinized, but increased capital does not necessarily provide an increased benefit and requiring banks to hold capital that is not risk based and appropriately tailored to a bank size, scope, and activities can cause more harm than good. At a time of record inflation where everyday needs are more expensive, we should not be pursuing actions that are harmful. Rather, we should be supporting the engine of our economy, small businesses. While I remain greatly concerned by the Vice Chair's comments, I am hopeful that you will ensure this review is appropriate. Keeping the impacts on our banking system front and center. We must promote and further the growth of our economy and thereby our people. Anything less should be unacceptable.

To that end, will you commit that any ongoing capital review by the Federal Reserve will follow the law and that any follow on regulatory proposals will be risks based and tailored to an institution's activity, size and complexity and not a one size fits all?

Jerome Powell:

Yes, I can easily commit to that. We're very strongly committed to tailoring and that'll be... I can say that anything we do will reflect tailoring, which is a long held principle for us and also now a requirement in the law.

Tim Scott:

Yes, Sir. Thank you very much. Two weeks ago, I sent a letter with Chairman McHenry to Chair Gensler regarding the SEC's Climate Disclosure Rule. Urging him to rescind his proposal and reminding him that the SEC is a market regulator, not a climate forecaster. Much like Congress designed the SEC to protect investors to maintain fair, orderly and efficient markets and to facilitate capital formation and not to advance progressive climate change policies. Congress designed the Federal Reserve to promote price stability and maximum employment not to play politics. To that end, I find worrying the Fed's announcement of recent actions to consider climate related scenarios coupled with remarks by the Vice Chair of Supervision as attempts to incorporate broader ESG policies into the financial services system banks have and continue to account for weather related risks in their risk management. But efforts that attempt to predict climate change far into the future fall outside the scope of their authority.

Importantly, the level of speculation required in these models should highlight their arbitrary and capricious nature at a time when our economy is suffering from historically high inflation. I expect our central bank to focus its time and resources on bringing inflation down, not on policy outside of its mandate. I noted in my opening statement a recent speech that you've given about the state of the Fed and how you should resist the temptation to broaden its scope and to address social issues. Do you agree that the Federal Reserve does not have the authority or statutory direction to use its monetary policy or supervisory tools to wade into the ESG or other climate policies?

Jerome Powell:

I do. As you know, there's a tightly focused role that we do have that I believe that we have, but I would agree with your statement.

Tim Scott:

Okay. Mr. Chairman, I have 20 seconds left, but I'm going to defer because of my earlier questions of my opening statement.

Sherrod Brown:

Thank you, Senator Scott. Senator Menendez is close but not here yet. So Senator [inaudible 00:32:02]... Senator Rounds.

Tim Scott:

Okay.

Sherrod Brown:

But nice try.

Tim Scott:

Yes, Sir. Just want to make sure. [inaudible 00:32:06].

Mike Rounds:

Thank you, Mr. Chairman. Mr. Chairman, first of all, welcome. It's always good to have you in front of our committee. And as you know, both core and headline inflation have remained persistently elevated. And over the past 12 months, real average hourly earnings fell by 1.8%, about 4% since President Biden took office. To make ends meet, as prices increase, more Americans are leaning on credit cards. At the end of 2022, credit card debt hit a record of $930.6 billion. An 18.5% spike from a year earlier. And an average credit card balance rose to $5,805. Over the past year, the Fed has acted aggressively to tame inflation and yet we are still seeing price increases. And as we've discussed this several times, I recognize that it's been an ongoing discussion, but I believe that this further proves that we have long been feeling the effects of a policy induced inflation resulting from decisions by the Biden administration, primarily cutting off the resources necessary to improve and increase domestic energy production.

I continue to be concerned that if you attempt to use the tools that are available at this time for the Fed, then I believe that we're going to have a challenge of not being able to address specifically the challenges brought out when you have a policy is promoting higher prices with regard to energy as opposed to what you're trying to do, which is to bring down the total overall cost. And I just wanted to ask, I guess, and you're going to think this is something that we've heard before, but do you believe that you currently have the monetary policy tools to actually reduce inflation? And I just put it in this perspective, in January of 2021, the CPI was 1.4% when the Biden administration began. In January of 2022... And this is before the Russian invasion of Ukraine. CPI was at seven and a half percent, 7.5%. Today, March of 2022, CPI is 8.5%. Wouldn't it be fair to assess that a lot of the policy or the inflation that we've seen here may very well be due to policy decisions by this administration?

Jerome Powell:

Senator, not for us to point fingers. Our job is to use our tools. You asked whether we have the tools to get this job done and we do over time. There are some things that we can't affect, but over time we can achieve 2% inflation and we will.

Mike Rounds:

In other words, you've got a limited number of tools available to you. And the limited number of tools that you have are designed to impact simply the...

PART 1 OF 4 ENDS [00:35:04]

Mike Rounds:

... who have, are designed to impact simply the reduction in prices and so forth. And yet if there are competing interests out there that are pushing prices higher, you don't have the wherewithal to decide one tool versus another based on whether it's policy induced or whether it is a matter of a shortage in supplies from outside or whether it's war related.

Jerome Powell:

That's right. Our tools essentially work on demand, moderating demand. That's what we can do.

Mike Rounds:

If there were policies in place that actually helped to reduce inflation, in other words... And by that, I'm just going to look at energy alone just as a good example. If policies were in place that were actually allowing energy prices to come down in the United States, then you would have less of a need to use the very blunt tools that you do have right now with regard to increasing rate increases. Is that a fair statement, sir?

Jerome Powell:

In a sense it is, but I would just say on energy, we-

Mike Rounds:

I'm not trying to get you to a policy discussion with what the President's doing on his energy policy. I just want to make it clear that you have to respond to what's in front of you and it doesn't matter where the inflation is coming from or what's driving it up, you're simply trying to bring it back down to that 2% number with the only tools that you've really got.

Jerome Powell:

Yes. But I will say on energy, energy has tended over time to fluctuate up and down and it's not mainly affected by our tools. The things we look at are really things that are tightly linked to demand in the US economy. Those we can affect.

Mike Rounds:

I think just the fact that you've been increasing interest rates and yet inflation continues to ride up would suggest, just as you've just indicated, that when you have high energy prices, it's tough to impact that part of it with the monetary policy that you've got available to you.

Jerome Powell:

We're really, we focus on everything, but we also focus on core in particular, which doesn't include energy prices and what's happened is core inflation has come down, but nowhere near as fast as we might have hoped and it has a long way to go.

Mike Rounds:

Thank you. One last question. Last June, Vice Chairman of Supervision, Michael Barr, testified before this committee that he would defend the use of the aggregation method as an alternative approach to the insurance capital standards, the ICS, proposed by the IAIS, as the final compatibility criteria set to come out later this year, can you confirm that you share Vice Chair Barr's views on this AM?

Jerome Powell:

I will confirm that, but I'll have to get back to you on the status of that.

Mike Rounds:

Okay. Thank you. Thank you, Mr. Chairman.

Moderator:

Thanks, Senator Rounds. Senator Menendez from New Jersey is recognized.

Sherrod Brown:

Thank you, Mr. Chairman. Mr. Chairman, I want to take this moment to remind my colleagues that there are more than 62 million Latinos that call the United States home. We are the largest minority group in the country. We account for nearly 20% of the United States population. We contribute almost $3 trillion in GDP. Yeah, Latinos have no representation in the Federal Reserve's leadership.

In the 109-year history of the Federal Reserve, there has never, never been a single member of the Board of Governors or Regional Bank President who has the lived experience of being Latino in the United States. And in practice, that means that the voices of nearly one fifth of our country's people are repeatedly drowned out when the Fed is making critical decisions on economic policy. Decisions that affect whether a Latino family can afford their first home, find a job that pays a living wage, send their children to college, save for a comfortable retirement, or get a loan to expand their business.

Right now, the Biden administration has a clear opportunity to make history with its next nomination to the Board of Governors. It has identified a number of highly qualified Latino candidates who have dedicated their careers to the fields of economics, who are committed to the Fed's dual mandate, who will preserve the independence of the Central Bank.

The administration has rightly nominated and advocated for a number of diverse candidates with similar qualifications, both at the Fed and elsewhere, but despite having five opportunities over the past two years to nominate a qualified Latino economist to serve at the Federal Reserve, this administration has repeatedly chosen not to. Representation, or lack thereof, does not happen by accident. It is a choice and I hope the administration makes the right choice with this nomination. Mr. Chairman, would you say that it is a truism that the United States dollar is the reserve of choice in the world?

Jerome Powell:

Yes, I would.

Sherrod Brown:

And that brings us enormous benefits, does it not?

Jerome Powell:

Yes, it does.

Sherrod Brown:

Now, 12 years ago, a Republican house brought us to the brink of defaulting on the debt for the first time in history of this country, jeopardizing our credit and the world economy. I'm getting a sense of deja-vu because once again, Republicans are recklessly demanding Draconian spending cuts to programs that hardworking US families rely on in exchange for allowing the Treasury Department to pay for spending that Congress, including most of them have already voted to authorize.

If you want to talk about spending cuts, it seems to me that the budget is the time to do that, but not to put the full faith and credit of the United States at risk. Chairman Powell, can you talk about the catastrophic damage a debt default would inflict on the economy?

Jerome Powell:

I guess I will start if I can by saying that these are really matters between the executive branch and Congress. We do not seek to play a role in these policy issues, but at the end of the day, there's only one solution that to this problem and that is Congress, whatever else may happen will happen, but Congress really needs to raise the debt ceiling. That's the only way out in a timely way that allows us to pay all of our bills when and as due. And if we fail to do so, I think that the consequences are hard to estimate, but they could be extraordinarily adverse and could do longstanding harm.

Sherrod Brown:

Well, I think that's a mild statement of what would happen. I understand, I didn't ask you to engage in the Congressional Executive branch roles. I asked you about the abstract question of what happens if you have a debt default. Isn't even this constant fight putting into question the possibility that the United States will not honor its full faith and credit have consequences within the economy?

Jerome Powell:

In principle, it could. I think markets tend and observers tend to watch this and tend to think that it will work out, and it has in the past worked out. So, it needs to work out this time too.

Sherrod Brown:

Now, seeing your testimony before the committee, is it fair to say that you'll do whatever is necessary to tame inflation?

Jerome Powell:

We serve a dual mandate and we will do what we can, everything we can to restore price stability, while also serving maximum employment.

Sherrod Brown:

And primarily, that means additional rate increases, would it not? What other tool do you have?

Jerome Powell:

That's why we have the balance sheet. The shrinkage of the balance sheet will continue too, but it's principally rate hikes.

Sherrod Brown:

So, the question is when does that part of doing anything necessary to tame inflation come into conflict with your other mandate of maximum employment?

Jerome Powell:

Not now. When we have the lowest unemployment in 54 years and where we have a labor market that is extremely tight. Extremely, but that time could come, but it really isn't now where we're very far from our price stability mandate and in effect the economy has passed most estimates of maximum employment.

Sherrod Brown:

Thank you, Mr. Chairman.

Thanks, Senator Menendez. Senator Kennedy of Louisiana is recognized.

Senator Kennedy:

Thank you, Mr. Chairman. Chairman Powell, thank you for being here. Thank you to you and your team for helping to save the economy during the pandemic meltdown. For what it's worth, I'm generally supportive of the actions of the Fed right now, and I'm not going to ask you today to blame anybody. When Congress spends money, it stimulates the economy, does it not?

Jerome Powell:

Well, it would depend on whether that's funded by tax increases or not. If there's a spending that's not accompanied by taxes, would have a net at the margin stimulative effect.

Senator Kennedy:

Well, and when Congress borrows money to spend even more, that stimulates the economy even more. Does it not?

Jerome Powell:

At the margin, yeah.

Senator Kennedy:

Okay. If Congress reduced the rate of growth in its spending and reduced the rate of growth in its debt accumulation, it would make your job easier in reducing inflation, would it not?

Jerome Powell:

I don't think fiscal policy right now is a big factor driving inflation at this moment, but it's absolutely essential that we do slow the pace of growth, particularly for the areas of the budget that are-

Senator Kennedy:

All right. Let's try to unpack this then. I'm not trying to trick you. You're raising interest rates. You're raising interest rates to slow the economy, are you not?

Jerome Powell:

Yes. To cool the economy off.

Senator Kennedy:

And one of the ways you measure your success other than fluctuation and gross domestic product is the unemployment rate, is it not?

Jerome Powell:

Yes. One of the measures.

Senator Kennedy:

Okay. So, in effect, I'm not being critical. When you're slowing the economy, you're trying to put people out of work. That's your job, is it not?

Jerome Powell:

Not really. We're trying to restore price stability.

Senator Kennedy:

No, you're trying to raise the-

Jerome Powell:

Not wages.

Senator Kennedy:

You're trying to raise the unemployment rate.

Jerome Powell:

There are a lot of-

Senator Kennedy:

I know you don't like the phrase, so let me strike it. You're trying to raise the unemployment rate, are you not?

Jerome Powell:

No, we're not trying to raise... We're trying to realign supply and demand, which could happen through a bunch of channels. For example, just job openings. Job opening could-

Senator Kennedy:

All right, let me put it another way. Okay? The economist did a wonderful study. They looked at 10 disinflationary periods in America going all the way back to the 1950s. Disinflation is what you're trying to do. It's a slowing in the rate of inflation. Am I right?

Jerome Powell:

Yes.

Senator Kennedy:

In other words, prices don't go down, they just don't go up as fast. Deflation is when prices actually go down. You're trying to achieve disinflation, are you not?

Jerome Powell:

Yes, we are.

Senator Kennedy:

Okay. Based on history, in the 10 times that we got inflation down, disinflation since the 1950s, in order to reduce inflation by 2%, unemployment had to go up 3.6%. Now that's history, is it not?

Jerome Powell:

I don't have the numbers in front of me, but yes, the standard has been that there have been recessions and downturns when the Fed has tried to reduce inflation.

Senator Kennedy:

Now, right now, the current inflation rate's 6.4% and the current unemployment rate's 3.4%. Now, if history is right, I'm not asking you to again blame anybody, but if history is right, unless you get some help, in order to get inflation down from 6.4% to let's say 4.4% and the unemployment rate is going to have to rise to 7% based on history.

Jerome Powell:

That's what the record would say.

Senator Kennedy:

Okay. And to get inflation down to 2.2%, based on history, an immutable fact, unemployment would have to go to 10.6%. Would it not?

Jerome Powell:

No, I wouldn't-

Senator Kennedy:

That's what the history shows.

Jerome Powell:

Yeah. I don't think that kind of a number is at all in play here.

Senator Kennedy:

I mean, I know you're reluctant to admit it and you don't want to get in the middle of a policy dispute, but I think it's undeniable. It's undeniable that the only way we're going to get this sticky inflation down is to attack it on the monetary side, which you're doing and on the fiscal side, which means Congress has got to reduce the rate of growth of spending and reduce the rate of growth of debt accumulation.

Now, I get that you don't want to get in the middle of that fight, but the more we help on the fiscal side, the fewer people you're going to have to put out of work. Isn't that a fact?

Moderator:

Please answer.

Jerome Powell:

Could work out that way.

Senator Kennedy:

Sir?

Jerome Powell:

It could work out that way.

Senator Kennedy:

Yes, sir. Thank you.

Moderator:

Thank you, Senator Kennedy. Senator Reed of Rhode Island is recognized.

Senator Reed:

Thank you very much, Mr. Chairman. Thank you, Chairman Powell, for being here today. We saw in the wake of COVID, the globalized supply chain disrupted significantly, and we're in the process in some respects of rebuilding a supply chain with emphasis on sourcing in the United States.

To what extent did that disruptive supply chain contribute to inflation and to what extent will the new, if you envision it, the new supply chain that is located in the United States and other friendly countries, affect inflation?

Jerome Powell:

The initial outbreak of inflation was all about spending on goods where people couldn't spend on services. Good spending went way up, and the global supply chain, many, many goods are imported. The global supply chain just collapsed and that was the source of the original inflation. It is now spread over the last two years to housing and also to the rest of the service sector. To your question, we are seeing, goods inflation has been coming down for some time now. It's still too high, but it's coming down.

Housing services, there's in the pipeline, you see the new leases that are being signed. And what that tells you is that in the next six to 12 months, we will see that come down. But this big service sector, that's everything else, which is financial services, medical services, travel and leisure, all of those things. That's really where, that's the source of the inflation we have now, which had nothing to do with the supply... Or not much to do with the supply chains. That's where the challenge is now.

Senator Reed:

And is there anything that you can do that would target that service area without affecting the other areas?

Jerome Powell:

There's not really. Our monetary policy tools are famously powerful but blunt.

Senator Reed:

A different topic, and that is, as you are probably aware of the Fifth Circuit delivered a ruling in the Community Financial Service Association versus CFPB that the CFPB's funding mechanism is unconstitutional. Just like the Board of Governors, the CFPB is a bureau or the Federal Reserve, both the Board of Governors and the CFPB rely on the same source of funds and draw on those funds in virtually identical ways. If the Board of Governor's funding structure will be found unconstitutional, what would the implications be for the country and monetary policy?

Jerome Powell:

Well, it would be very significant, but I have to say, we have significant responsibilities, but I would be reluctant to comment on a case that's before the Supreme Court.

Senator Reed:

But it is certainly something that you've had people examine for possible ramifications.

Jerome Powell:

Yes. And the central banks tend to be self-funding because of the way that they work, and that's a key factor of our independence.

Senator Reed:

We've going back and forth on the impact of rate heights on workers. You've indicated previously that wages have not been spiraling upwards necessarily and that inflation expectations are currently stable, but the impact on increased interest rates are usually felt more by low to moderate income people. Is there any way you can work yourself out of that dilemma?

Jerome Powell:

Where we are right now of course is very low unemployment. Wages have been moderating and they've been doing so without softening in the labor market, without a rising unemployment really, and that's a good thing. We really don't know.

The current situation is a combination of more typical supply and demand issues, but also just things that we haven't seen before, like the war in Ukraine, like the supply chains that you mentioned. So, we have many unusual factors and I don't think anybody knows with confidence how this is going to play out.

Senator Reed:

Thank you very much, Mr. Chairman.

Jerome Powell:

Thank you, Chairman.

Sherrod Brown:

Thanks, Senator Reed. Senator Brett, Alabama's recognized.

Senator Brett:

Thank you, Mr. Chairman. Chairman Powell, it's great to have you here today. Over the past two years, we've seen the highest inflation of my lifetime, driving up cost for American families across the board. According to the US Department of Labor, the annual inflation rate in 2021 was 7%, and in 2022 it was 6.5%. According to the US Department of Agriculture, the cost of food went up 10% in 2022. And the real effects of that is moms and dads across this nation that are working to put food on the table for their kids, for their babies, had a harder time doing that.

This has devastated hardworking Americans causing a kitchen table crisis in every corner of our country, as the price of food, energy and housing have all skyrocketed. In response, the Federal Reserve has raised the Federal Reserve fund rate more than four percentage points. Being far from transient, inflation has remained persistent, high and well above the Fed's long run goal of remaining under 2%. In the coming year, what factors and indicators are you paying attention to as you and the Federal Open Market Committee decide on whether to increase rates?

Jerome Powell:

I'd say a couple things to that. First, we're going to be looking at inflation in the three sectors that I mentioned, the goods sector, the housing sector and then the broader service sector. We need the inflation that's already underway in the goods sector to continue, and that's really important. In the housing sector, we just need the time to pass so that reported inflation comes down and it's effectively in the pipeline as long as new leases are being signed at relatively small increases.

We'll be watching very, very carefully though at the larger service sector, which is 56% of consumer spending and more than that of what of what's currently inflation. That's one thing, we'll be watching that very carefully. Also, we raised rates very quickly last year and we know that if monetary policy tightening policy has delayed effects, it takes a while for the full effects to be seen in economic activity and inflation. So, we're watching carefully to see those effects come into play and we're aware that we haven't seen the full effect yet and we're taking that into account as we think about rate hikes.

Senator Brett:

When you're looking at this, obviously not to get into a policy discussion, but if there were an increase of energy production in this country, do you feel like that would help drive down inflation?

Jerome Powell:

Well, I think over time, more energy would mean lower energy prices, but we are very focused on what we call core inflation because that is what is driven really by demand and our tools are really aimed at demand.

Senator Brett:

Right. Understood, but I feel like the cost of energy is not just what you pay at the pump, it ends up affecting every good across this great nation. Additionally, I'd like to ask you about labor participation. When you look at the unemployment rate, and we've heard my colleagues discuss people having to be displaced in order for us to maybe get to the inflation rate that we would like as a nation, I'd like to focus on the labor participation rate.

Right now it's 62.4%. If there were an increase and people coming back into the workforce, would that be a positive factor with regards to driving us down to the 2% rate that you would want to achieve?

Jerome Powell:

I think that it would. Remember, those people coming into jobs, that would be great because the economy clearly wants more people than are currently working. Of course, those people would then spend more, so it wouldn't be a zero-sum game, but it would be great for the country and great for them if they were to come into the labor force.

Senator Brett:

Amen. I believe that increasing in capital requirements on financial institutions would have a chilling effect on the economy and the availability of financial services. And last week I joined many of my colleagues in sending you a letter that expressed concerns that if the Federal Reserve decides to conduct a quote, "holistic review" of capital standards, as we heard Senator Scott talk about earlier. So, is the Federal Reserve concerned that the impact to the economy of increasing capital requirements on financial institutions at a time when inflation remains persistently high would cause an issue?

Jerome Powell:

I think it's always a balance. We know that higher capital makes banks safer and sounder. We also know that you will at the margin provide less credit, the more capital you have to have. But I think it's never exactly clear that you're at perfect equilibrium. And it's a fair question I think to look at that.

Senator Brett:

And I know out of respect for the Chairman and trying to stay in my time, I will just end by saying, I heard what you said. Obviously, as you have said, the Federal Reserve is not and will not be a climate policymaker. I just want to thank you for your public statement on that. I agree with you that there's a difference between policymakers and financial regulators and certainly look forward to working with you in the future.

Moderator:

Thanks, Senator Brett. Senator Warner from Virginia is recognized.

Senator Warner:

Thank you, Mr. Chairman. Chairman Powell, it's good to see you again. Let me start by saying, depending on who's asking questions, we're either pounding you for how quickly we're going to drive that inflation back to 2% or pounding you on making sure that we don't push the economy into a recession and drive up unemployment. I got to tell you, and these are maybe not the cheap seats, but I actually think you've done a pretty good job in terms of both ratcheting up rates and then starting to tail off a little bit.

I think we all were concerned by the January numbers where it popped up a little bit more. I wish, Mr. Chairman, we were actually having this hearing two weeks from now, 'cause we're going to have a lot more data later in this week and next week. But I want to... Net-net, we've still got ways to go and the January numbers were concerning, but I do think your tailored approach, we can all second guess, but I think it has been the right approach and I'm going to commend you on that.

I want to get two questions in. One, one of the areas that I am very worried about is commercial debt. I mean, we've got a Bloomberg story here showing we're going to hit a $6 trillion wall this year on refinancing. Where I'm particularly concerned is the issue around commercial real estate. As we recover from COVID, a lot of things are getting back to normal, but clearly the transformation of where people work is going through a fundamental transition.

I hope people do return more to the office, but lots of folks prefer working elsewhere. That's going to fundamentally change the real estate market on the commercial side. And I do believe we're going to hit potentially a cliff here of a totally unexpected problem in terms of commercial real estate. How are you looking at that issue and recognizing there's lots of bumps coming out of COVID, this one seems to be more unique in nature, and how are you thinking about that issue?

Jerome Powell:

The first one on commercial debt, business debt generally, it's kind of been moving sideways as a percent of GDP, so you don't see a big spike going on or anything like that. However, of course, there are pockets of concern and particularly you pointed to the refinancing spike that has to happen. I've seen those come and go before, generally markets can absorb them, maybe at a much higher rate this time, but it's something that we're well aware of and watching carefully.

In terms of CRE, I would agree with you. The occupancy of office space in many major cities is just remarkably low and you wonder how that can be. Now over time, some of that's going to be made into condominiums and things like that since we don't seem to have quite enough housing in some places. But the question is what's the financial stability risk? It's not great for... The largest institutions don't tend to have a lot of direct exposure to that. Some smaller banks actually do, medium and small size banks do. We carefully monitor it. We agree that that's an area that requires a lot of monitoring and I'd say we're on the case.

Senator Warner:

Well, that will morph me into my last question. Something we've talked about and a lot of my colleagues have talked about with the large institutions. I do think even some of the biggest critics of Dodd-Frank I think would acknowledge our banking system is a heck of a lot stronger and then was able to withstand COVID in a very healthy way. But what we've also seen evolve is a vast amount of financial institutions move beyond the regulatory perimeter.

The fact that we now have way over half of the mortgage origination coming from non-financing institutions because a lot of the large entities, hedge funds, other funds that may be doing some of this commercial debt or some of the CRE debt. I'd like you to talk generally in the last 40 seconds or so of how you think about this regulatory perimeter. I'm a big believer, I know some of my colleagues are, that we ought to look less at charter and look at same risk, same regulation maybe as a guiding principle.

I know Senator Warren's been working on some work, I've been working on some work around crypto around that area, but there's a vast amount of activity that's taking place outside the regulatory perimeter. How should we be thinking about that and how do we make sure that doesn't create the kind of crisis sneak up that happened in 2008 on the non-regulated side of the house?

Jerome Powell:

I think you articulated the principle very well. It's same activity, same regulation, and that covers crypto and all kinds of other activities. People are going to assume when they deal with something that looks like a money market fund, that it has the same regulation as money market fund, or a bank deposit.

So, stablecoins need some attention in that respect. I just think that's the basic principle. And you're right, so much of intermediation has moved away from the regulated banks really for a long period of time and we got to keep an eye on that.

Senator Warner:

I hope that we can keep looking at [inaudible 01:03:22].

Moderator:

Thank you. Senator Vance. I'm sorry, Senator Haggerty of Tennessee.

Senator Haggerty:

Thank you, Chairman Brown. And thank you very much Ranking Member Scott for holding this hearing. Chairman, it's great to see you again here. I appreciate your presence and I appreciate the opportunity to talk with you about an item that I'm particularly concerned about, and that's the holistic review that Senator Brett just brought up that Vice Chair Bower is conducting right now.

It's generating a sense that higher capital requirements are on the horizon for us. As I think about that in the context of what we've weathered, you think about the situation in 2020 was an acute, real life stress test, if you will. And I think that our financial system navigated that admirably. In the past, Chair Powell, you've told this committee that our financial system has proven resilient through 2020 and that the capital levels at that point in time, and I would note that those capital levels are at multi-decade highs, are in aggregate adequate. And I just wanted to follow up on those prior statements and see if you still feel that way.

Jerome Powell:

I guess I would say it to you this way. In our system, we have a Vice Chair for Supervision who has statutory responsibilities and when a new Vice Chair for Supervision comes in, generally we're going to want to take a fresh look. That's what the former, Vice Chair Quarles did and Dan Tarullo kind of had the job on an informal basis, and that's what he did.

It's only natural that someone would come in and take a fresh look, and I think that's part of the process. The role of that person is to make recommendations on regulation supervision to the full board. The role of the board is to consider those when made. And to me, this just comes under that heading.

Senator Haggerty:

Well, as the review is underway, and I appreciate that context. One aspect of it seems to us as an apparent willingness to undo the tailoring requirements that were enacted as part of S-2155. I understand that nothing has been finalized regarding the regulations. It's a concerning prospect, if that's the case.

The Fed's general counsel just yesterday alluded to undoing 2155 by quote, "pushing down" the Basel requirements on banks that were intentionally given relief in that bill. I want to be perfectly clear that the banking regulators themselves can't just simply ignore or selectively enforce the laws. Again, I realize that the details of this study haven't been finalized or made public, but if the proposal put forth by Vice Chair Barr is either unduly aggressive or appears to contradict the spirit of S-2155, will you vote for it?

Jerome Powell:

I'd have to... I can't answer that in the abstract, of course. But I would say we're, as an institution, very strongly committed to tailoring and anything we do is going to reflect tailoring of institutions according to their risk. I mean, that's a principle that we'll stick with.

Senator Haggerty:

I think it's quite important, again, given the legislative intent here and the concerns that we maintain that in the face of what General Counsel said just yesterday. I appreciate your perspective in terms of keeping that in place. I'd like to come with my next question, Chairman Powell, with starting the question by underscoring the importance of the independence of the Fed's monetary policy.

Right now, the economic picture is about as uncertain as I can remember. We've had large companies in the private sector who are in the midst of planning layoffs and forecasting serious economic weakness in the quarters to come. Yet on the other hand, the current economic data seems to be robust. Inflation showed some signs of softening in the past several releases. I just hope, Chair Powell, that you could briefly tell us how you synthesize these seemingly contradictory data.

Jerome Powell:

Just quickly, at the end of last year, we saw a couple of very promising modest inflationary readings in November and December. But earlier this year, some of that improvement was revised away. In addition, we got a very strong reading on inflation in January. Also, a very strong jobs reading, also very strong retail sales. And so, as I pointed out in my testimony, we're looking at a reversal really of what we thought we were seeing, to some extent, a partial reversal.

It's still true, it's still the case that we're seeing progress on inflation. We're seeing goods inflation has come down significantly. There's improvement in housing inflation in the pipeline. There's not a lot of improvement yet to be seen in the largest sector, which is non-housing services. So, core inflation's running at 4.7% on a 12-month basis. I think nothing about the data suggests to me that we've tightened too much. Indeed, it suggests that we still have work to do.

Senator Haggerty:

In that context, thinking about where the tightening goes and where and when it might happen, where do you see the terminal Fed funds rate landing in this cycle?

Jerome Powell:

We last wrote down our assessments, individual assessments to that in December. And I think the median range was, basically people were clustered between five and five and a half. We're going to write down those again as part of the... We do it four times a year. We'll do it around the March meeting, which is on the 21st and 22nd of March.

As I indicated in my testimony, I think the data we've seen so far and we still have other data to see, we still have significant data to see before the meeting, suggests that the ultimate rate that we write down may well be higher than what we wrote down in December.

Senator Haggerty:

Got it. Thank you, Mr. Chairman.

Jerome Powell:

Thank you.

Senator Haggerty:

Thank you.

Moderator:

Senator Warren in Massachusetts.

Senator Warren:

Thank you, Mr. Chairman. The Fed has raised interest rates eight times over the last year in what has been the most extreme rate height cycle in 40 years. The Fed's goal is to slow inflation and your tool, raising interest rates, is designed to slow the economy and throw people out of work. So far, you haven't tipped the economy into recession, but you haven't brought inflation entirely under control either.

And maybe the reason for that is that other things are also keeping prices high. Things you can't fix with high interest rates, things like price gouging and supply chain kinks and a war in Ukraine. But you are determined to continue to raise interest rates, so I want to take a look at where you're headed. In December, the Fed released its projections on the state of the economy under your monetary policy plan. According to the Fed's own report, if you continue raising interest rates as you plan, unemployment will be 4.6% by the end of the-

PART 2 OF 4 ENDS [01:10:04]

Senator Warren:

... Unemployment will be 4.6% by the end of the year, more than a full point higher than it is today. Chair Powell, if you hit your projections, do you know how many people who are currently working, going about their lives will lose their jobs?

Jerome Powell:

I don't have that number in front of me. I will say it's not an intended consequence.

Senator Warren:

Well, but it is and it's in your report and that would be about 2 million people who would lose their jobs. People who are working right now making their mortgages. So Chair Powell, if you could speak directly to the 2 million hardworking people who have decent jobs today who you are planning to get fired over the next year, what would you say to them? How would you explain your view that they need to lose their jobs?

Jerome Powell:

I would explain to people more broadly that inflation is extremely high and it's hurting the working people of this country badly. All of them, not just 2 million of them, but all of them are suffering under high inflation and we are taking the only measures we have to bring inflation down.

Senator Warren:

And putting 2 million people out of work is just part of the cost and they just have to bear it?

Jerome Powell:

Well, will working people be better off if we just walk away from our jobs and inflation remains five, 6%?

Senator Warren:

Let me ask you about what happens if you do this since the end of World War II, there have been 12 times in which the unemployment rate has increased by one percentage point within one year. Exactly what you're aiming to do right now. How many of those times did the US economy avoid falling into a recession?

Jerome Powell:

It's not as black and white as... Very infrequently-

Senator Warren:

Just looking at the numbers, it actually is pretty black and white.

Jerome Powell:

No. Allen [inaudible 01:11:51] has written a book on this and-

Senator Warren:

There have been 12 times that we've seen a one point increase in the unemployment rate in a year. That's exactly what your Fed report has put out as the projection and the plan based on how you're going to keep raising these interest rates. How many times did the economy fail to fall into a recession after doing that out of 12 times?

Jerome Powell:

I think the number is zero.

Senator Warren:

I think the number is zero. That's exactly right. So then the question becomes, we've got 2 million people out of work. Can you stop it at 2 million people? History suggests that the Fed has a terrible track record of containing modest increases in the unemployment rate. Once the economy starts shedding jobs, it's kind of like a runaway train. It is really hard to stop. In fact, in 11 out of the 12 times that the unemployment rate increased by a full percentage point within one year, unemployment went on to rise, another full percentage point on top of that.

If that's what happens this time, we'd be looking at at least three and a half million people who would lose their jobs. So Chair Powell, if you reach your goal and 2 million people get laid off by the end of this year, and then just like in 11 out of 12 times that unemployment has risen by a point in a single year, it keeps on rising. And then we've got two and a half million people out of work. We've got 3 million people who get laid off. We've got three and a half million people who get laid off. What's your plan?

Jerome Powell:

Well, right now the unemployment rate is 3.4%, which is the lowest in 54 years. And we actually don't think that we need to see a sharp or enormous increase in unemployment to get inflation under control.

Senator Warren:

I'm looking at your projections. Do you call laying off 2 million people this year not a sharp increase in unemployment?

Jerome Powell:

I would say four and a half percent-

Senator Warren:

Explain that to the 2 million families who are going to be out of work.

Jerome Powell:

Again, we're not targeting any of that, but I would say even four and a half percent unemployment is well better than most of the time for the last 75 years.

Senator Warren:

In other words, you don't have a plan to stop a runaway train if it occurs. Chair Powell, you are gambling with people's lives and there's a pile of data showing that price gouging and supply chain kinks and the war in Ukraine are driving up prices. You clinging to the idea that there's only one solution, lay off millions of workers. We need a fed that will fight for families. And if you're not going to lead that charge, we need someone at the Fed who will

Speaker 1:

Senator Vance of Ohio.

Senator Vance:

Thank you, Mr. Chairman. Chairman Powell, thanks so much for being here. I have a question that's slightly far afield, but how often you get to talk to the Federal Reserve Chairman, so I might as well ask it. So to give some context here, my family comes from Appalachia, particularly my grandparents grew up in southeastern Kentucky coal country and then moved to southern Ohio where I now have the honor of representing all of Ohio. And one of the things that you hear a lot when you study the regional history of Appalachia is it's often described as possessing a resource curse. So there's a lot of coal in central Appalachia that enables a certain amount of consumption.

Obviously consumption is good, people need food and medicine and other things, but there's also a pretty good argument that for a host of reasons, it causes mal-investment in the region and consequently you have lower productivity growth, lower innovation in an economy that's much less diversified and much less dynamic. I'm wondering, when I think about and read about the history of Appalachia and the resource curse, I'm struck by some of the idea that you could make a similar argument about the reserve currency status of the United States dollar. Americans have enjoyed one of the greatest privileges of the international economy for the last nearly eight decades. A strong dollar that acts of course as the world's reserve currency.

You know that better than I do now, this has obviously been great for American purchasing power. We enjoy cheaper imports. Americans when they travel abroad benefit from lower costs, but it does come at a cost to American producers. I think in some ways you can argue that the reserve currency status is a massive subsidy to American consumers, but a massive tax on American producers. Now, I know the strong dollar is sort of a sacred cow of the Washington consensus, but when I survey the American economy and I see our mass consumption of mostly useless imports on the one hand and are hollowed out industrial base on the other hand, I wonder if the reserve currency status also has some downsides and not just some upsides as well.

And let me just put a final point on this and I'd love to get your thoughts on that. Chairman Powell, we're of course now the main supporter of a massive land war in Europe between the Russians and the Ukrainians. And I'm not going to comment on how perfect or precise these estimates are, but I read recently that the United States is trying to ramp up production from 14,000 artillery shells to 20,000 artillery shells that's per month while the Russians are firing 20,000 artillery shells in Ukraine per day. And when I look at the American economy, we have a lot of financial engineers and a lot of diversity consultants. We don't have a lot of people making things and I worry that the reserve currency status and the lack of control we have over our currency is perhaps driving that. I'd love to get your feedback on that. What are the upsides and downsides of the reserve currency?

Jerome Powell:

That's a big question to try to answer.

Senator Vance:

You have two minutes, Chairman Powell, so plenty of time.

Jerome Powell:

I can't even get started on that. So we are the world's reserve currency of course, and that's because of our democratic institutions. It's because of our control over inflation over many, many, many years. The world trusts the rule of law in the United States and those are the things... So once you're the world's reserve currency, it's used in all over the world in transactions and it's the place where people want to be in times of stress is in dollar denominated assets.

Sure. Now so of course we benefit by being able to pay for our goods all over the world, pay for everything anywhere in the world, mostly with dollars. That's an advantage. There are some economic theory around that. It also has burdens of various kind, but I can't call it all back to mind, but the other thing is it's a very stable equilibrium, but it's not a perfect one. It's not a permanent one rather. So there isn't any obvious candidate to replace the United States right now where you can have free flow of capital in and out of the country where you can really trust the rule of law and democratic institutions and keeping price stability, which you can here.

Senator Vance:

Do you think it gives us less control over our own currency, the fact that it's become the world's reserve currency?

Jerome Powell:

Control over our currency, I'm not sure. So essentially what we try to control is price stability and no, it doesn't make it harder for us to keep inflation under control. The United States has a smaller external sector than most large economies. It's only about 15%. So mainly what affects inflation in the United States is domestic supply and demand.

Senator Vance:

Do you think makes it harder for us to fight back against currency manipulation to control the export and import flows in a way that stabilizes our own manufacturing sector?

Jerome Powell:

Well, I mean what's important there is really the level of the dollar and when the dollar is stronger, obviously our wares are more expensive abroad and that kind of thing, but we don't have an opinion on... Matters of the level of the dollar are really matters for the treasury Department and the elected government, not for the Fed.

Senator Vance:

Thank you Chairman Powell.

Jerome Powell:

Thank you.

Speaker 1:

Thanks, Senator Vance. Senator Van Hollen of Maryland is Recognized.

Senator Van Hollen:

Thank you, Mr. Chairman. Chairman Powell, thank you for being here and for your service. I know the Fed is experiencing lots of challenges these days. I've got a couple questions that are just I think basic yes or nos and then some longer questions. Would you agree that changes in the size of corporate profits can be one of the factors that affects the inflation rate?

Jerome Powell:

Yes.

Senator Van Hollen:

Now, recently we saw that the employment cost index, which as you know measures the growth of wages and benefit costs grew at roughly 4% on an annualized basis in the fourth quarter of 2022. Is that right?

Jerome Powell:

That's my recollection, yes.

Senator Van Hollen:

So if corporate profits were to decline from the extremely high levels that we saw recently, would it be possible to sustain the 4% growth rate in the employment cost index for an extended period of time, even as we get inflation down to the target of 2%?

Jerome Powell:

Depends on what you mean by extended period of time. So without a very, very large increase in productivity, which would be great, but we don't expect you wouldn't be able to sustain 4% wage inflation over the longer term. Over the shorter term though, yes.

Senator Van Hollen:

So over the shorter term, that would not be a justification in and of itself for raising rates. Is that right, in the short term?

Jerome Powell:

Well, so I think wages affect prices and prices affect wages. I think we do think that some softening in labor market conditions will happen as we try to get inflation under control and will need to happen.

Senator Van Hollen:

But that's more a prediction about your efforts to fight inflation. Are you saying that simply looking at the current 4% growth rate in the short term is an excuse for jacking up interest rates?

Jerome Powell:

I think no. What I would say is that all the data we look at in the labor market, including not just that measure of wages, but others also unemployment, also participation, also job openings and quits and things like that. All of that, you put that into the picture and I think you see a labor market that is extremely tight and is probably contributing to inflation. I've never said it was the main cause.

Senator Van Hollen:

I think the larger point here, based on your response to that first question about growth and profits is corporations have a decision as to whether or not they're going to pocket more for profit, which they can or provide higher wages to their employees, and if you actually lowered your profit margins, you could sustain a higher wage increase without violating the 2% inflation. Isn't that right?

Jerome Powell:

Yes. I mean, when I hear profit margins, what we're seeing in the economy is pretty much about shortages and supply chain blockages. And when there's not enough of a product, what happens then? There's a lot of demand. What you see is prices going up. As the supply chains get fixed and shortages are alleviated, you will see inflation coming down, you'll see margins coming down and that will certainly help with inflation.

Senator Van Hollen:

But profits are the margin, right? They're going up beyond what they were before. That means that even with the increase of cost because of supply chains, they're making more profits, which again, they can do that. But my point is that as a contributor to inflation, as you indicated in response to the first question. Let me ask you about the tight labor market because one of the issues in a tight labor market is parents with kids, including a lot of moms who would like to go back into the market but are not able to do so because of lack of affordable childcare. The other issue is immigration, and I know that you've gotten some recent data on how some immigration figures actually have softened a little bit the tightness in the labor market. Can you just talk broadly about those two factors, affordable childcare and immigration, more legal immigration and how they could affect labor force participation and therefore also reduce inflation pressures?

Jerome Powell:

So on the first, we don't make recommendations or evaluate fiscal policy, but I will say there's research that shows that it helps keep women in the workforce when there's childcare available, which is I think self-evident. Sorry, the second was-

Senator Van Hollen:

Impact of immigration.

Jerome Powell:

Immigration, yeah. So what talked about with you is actually as part of the January Bureau of Labor Statistics Report, which comes... Sorry, the employment report for January, which comes out in early February, there is a section in there about more people. The census department has increased its estimate of the workforce by something like 870,000. And a significant part of that has been immigration and that has moved up participation by a little bit, and it may be part of why we're hearing from in the labor market that the really intense labor shortage pressures that we were hearing about in 2021 and '22 may be alleviating, so that would contribute to that clearly more people. Clearly the economy's calling for more people with essentially two job openings for every unemployed person, and this can be a source of those people.

Senator Van Hollen:

And that would reduce the tightness of labor market and reduce pressures on inflation, right?

Jerome Powell:

May already be doing so.

Senator Van Hollen:

Thank you.

Speaker 1:

Senator Cramer of North Dakota is recognized.

Senator Cramer:

Thank you, Mr. Chairman. Thank you Chairman Powell for being here and I can't resist responding to a few things that my friends on the left have said. For example, in his opening statement, Chairman Brown had a long list of things that raising interest rates won't do. Raising interest rates won't fill in the blank. I'm going to fill in the blank with a couple of things. How about raising interest rates won't stop Senate Democrats and President Biden from overtaxing, overspending, over borrowing, over-regulating. Chairman Brown said we should rebuild our supply chain by curbing offshoring, corporate offshoring. I agree. He talked a lot about corporate greed contributing to inflation, okay, but how about regulatory greed contributing to corporate greed? How do you expect corporations to reinvest money if you overregulate their ability to invest that money right here in the United States of America?

You want to onshore some things. How about energy policy? How about instead of looking to Venezuela or Iran for oil supply or Russia, or rather than looking to China for electric vehicles and chips and solar panels, how about we have a strategy that onshore those things by reducing regulation, reducing taxes and letting those corporations reinvest their profits rather than stock buybacks or dividends. This idea that somehow the Federal Reserve is supposed to keep inflation in check while half of the government works against it is mind-boggling. Now I know Mr. Chairman, you don't like to comment on policy. You and I have been around and around about this. You were anxious to advise us to spend lots of money during the pandemic. I don't think a lot of people blame you for that. You wouldn't respond to efforts by the Biden administration after we were in a robust recovery from not spending so much money. I can appreciate the change, but now we're in this debate between Republicans and Democrats, between particularly the House speaker and the President on how to raise the debt ceiling.

And you've made some pretty strong comments about raising the debt ceiling absent from structural reforms that would actually help us get back to a reasonable growth. And so I warn you again, if you're going to make political comments, if you're going to advise us on policy, be consistent with it. Now I want to get back to the greening of the Federal Reserve and I call them stress tests. You can call them whatever we call them, but I'm concerned that now the Federal Reserve is starting down this path. Maybe it's slightly at first about climate stress testing. I just want to ask you this. If we're going to go down that path, if the Federal Reserve is now going to become part of the federal climate police force, are we going to consider the ramifications of having entire communities and economies, factories and manufacturers, whatever energy entities, large server farms, leaving them susceptible to a very unreliable, very expensive energy source? Is that part of the stress test?

Jerome Powell:

No. That those are considerations for elected people, not for us. We have a narrow role to play here, but it's a real role and I can talk about that if you'd like.

Senator Cramer:

Well, yeah, I would like you to, because again, if we're going to start doing stress tests for the six largest financial institutions related to climate, which really is more weather than climate, then are we going to consider the effects of an unreliable energy source at several locations throughout our country?

Jerome Powell:

So our only focus is on the safety and soundness of these institutions and do they understand and can they manage all of the risks that they run in their business model? That's our only goal. Again, we're not looking to be climate policy makers. Climate policy is go clearly going to have effects on regions, on companies, on individuals, on countries, disparate effects. And that is not for unelected people like us who have a narrow mandate, but I think it does touch climate and you're right to be concerned that we find ourselves in a slippery slope. But honestly, I think the climate scenarios are something that the banks are already doing and themselves and climate guidance is something that they're looking for. They want to know how we're thinking about this, but we will try really hard not to get on a slippery slope and find ourselves becoming climate policy makers. It's just not appropriate for an independent agency.

Senator Cramer:

And I completely agree and I hope you stick to that and I think you ought to ask the banks to consider what the overreaction might... What kind of vulnerabilities that might expose. With that, just with regard to what Senator Warren was saying on her monologue, one thing about ideologues is they have the luxury of binary choices. You have a really big job and you have a single, in my mind, one and a half, maybe two missions. I think the first one handles the second one okay, but it's got to be tough when the White House is working against you and you don't have to comment. Thank you. Thank you, Mr. Chairman.

Speaker 1:

Senator Tester of Montana is recognized.

Senator Tester:

Chair Powell, thank you for being here today and thank you for serving it in this critical role at this critical time. I have talked many times in this committee and I especially right now, cannot overstate the importance of the Fed's independence. I said it in the previous administration, I say it now, we cannot be playing politics with our economy and that is a fact. From a climate standpoint, I will just tell you it's entirely artificial right now anyway, because if you look at the hundreds of billions of dollars this country puts out every year in disasters due to climate instability, we ought to be asking our question is that sustainable? Because quite frankly, it has to be done and I don't think it's sustainable. So we've got to start looking for some solutions on the climate side sooner rather than later. The reserve has a tough job and I really appreciate how you've done it. Reasonable, working together, making hard decisions for the good of the economy. We have to get this right. So the question is how much has inflation decreased since its peak?

Jerome Powell:

It depends on the measure, but it's meaningfully at least a couple percentage points.

Senator Tester:

And has unemployment gone down as inflation has gone down?

Jerome Powell:

Unemployment has gone down. Yes, it has, to now a 54-year low.

Senator Tester:

Yeah. So the question becomes, and I always think back to in 1998, I bought some property and the interest on that property was 10% in 1998 and I thought I got a hell of a deal by the way. I thought it was just great. But the truth is interest rates have been artificially low for the last, what, 20 years probably. And the question becomes as you look at the economy and as you try to make the determination, whether the inflation is caused by demand or supply, where does all that fall in to your decision making moving forward?

Jerome Powell:

Well, you mean the level of interest rates? So in theory, there's this thing called the neutral level of interest, and we know it only by its works and neutral is the level that neither pushes the economy up, nor pulls it down and it changes over time. This is the thing about these important variables in economics. So what's happened O until now was that the neutral level of interest went down and down and down to the point where many countries had zero interest rates and very low inflation.

Now we have this series of shocks associated with the pandemic and we have rates at 4.5% our policy rate, and we have the labor market very strong and inflation reacting somewhat. And it does raise the question of where's the neutral rate? Honestly, we don't know. I think we look at the current situation and we see that there's not a lot of evidence that... Hard to make a case that we've over tightened. It means we need to continue to tighten. I think we're very mindful of the lags with which our policy works. We don't think we need a significant increase in unemployment and we're certainly not aiming for one, but we do think there'll be some softening in labor market conditions to get to 2% inflation.

Senator Tester:

When you're looking at interest rates, I know we talk about energy prices here and the price of gasoline, and then if you go over and Europe is much, much higher, are we comparable? I'm just curious, are we comparable with our interest rates here as is with say Europe?

Jerome Powell:

We're very close to where Canada is. We're a little bit higher than where Europe is. Europe's traditionally had much lower inflation, they now have very high inflation and they're still increasing rates, but they're a bit lower in terms of rates.

Senator Tester:

So if we do not get the inflation under control, and like I said, I think the steps you've taken have been reasonable and measured. If we don't get it under control, what are the impacts of that?

Jerome Powell:

Well, the social costs of failure is one way to think about it, are very, very high. So if inflation were to continue at some point, that will become the psychology. People and businesses will come to expect high inflation and that will make it more self-perpetuating. That will mean an up and down economy. It'll mean something that looks more like what we've seen in periods of high inflation. Capital allocation is difficult in a world like that. It's not a good time for the economy. What we want to do is restore price stability firmly at back at 2% so that we can have the kind of strong labor market for a sustained period that we had before.

Senator Tester:

Once again, thank you for your work. Thank you for your independence. Senator Daines.

Jerome Powell:

Thank you.

Senator Daines:

Thank you, Senator Tester. And I'll be handed off Senator Cortez Masto when I'm finished up as well. So Mr. Chairman, good to have you here today. When I am back in Montana, the number one issue I hear certainly across the state is the high cost of gas, the high cost of groceries, and overall how their paychecks are shrinking because of inflation. It's a crushing blow. It has real life impacts. It's top of mind issue for Montanans. It's also important to note the devastating impact it's going to have on our nation's economic future. In fact, in October of last year, I sent a letter to Congressional Budget Office Director Swagel regarding the impact that high inflation and the elevated interest rates would have on the cost of servicing the federal debt. His response painted a less than rosy picture, but then we got the CBOs updated 10 year baseline forecast in February, and it confirmed the truly dire situation that we find ourselves in.

Driven by interest payments on the debt, the CBO now projects that cumulative deficits during the 10-year window... And I recognize where deficits come from. It's irresponsible spending here in Washington, but the cumulative deficits during the 10-year window will exceed 20 trillion dollars. The cumulative deficit. Not talking the debt because it's going to grow the total federal debt to more than 51 trillion by 2033. Now, 2033 used to sound like a long ways away. We're 10 years away. 10 years goes by very, very quickly. Within five years, we're going to spend more on annual interest on the national debt than we spend on national defense. You think about that for a moment, and these are coming out of the CBO. These absolutely shocking, but quite frankly predictable projections. Go back to a debate we vigorously had here in the banking committee, I remember when Lawrence Summers, of course the former Secretary of Treasury under President Clinton, economic advisor to President Obama.

He warned us. He said... And he was practically warning my colleagues across the aisle. He says, "You can't move forward with these purely partisan..." At that time of 1.9 trillion dollar spending extravaganza. We had a trillion dollars of unspent COVID money in December of 2020, and that passed on a purely partisan vote. We said it's going to start to ignite the inflation fires. So I certainly hope the President's budget, which we expect to see later this week, will propose pro-growth policies that can get us out of this mess. And I would argue almost an existential crisis as we look at what's going to come at us here of a course the next 10 years with debt and service on that debt. Unfortunately, as the President said in the State of the Union address, the President says he is going to raise taxes. That's a recipe for disaster. It's going to crush productivity, discourage investment, stifle economic growth even further. I want to turn to my questions now. Chairman Powell, you're raising interest rates to combat the inflation we've seen in the economy over the past few years. Is that that correct?

Jerome Powell:

Yes.

Senator Daines:

And although this is the domain of treasury, a higher Fed's fund rate will mean higher borrowing costs. Is that correct?

Jerome Powell:

Yes. All else equal.

Senator Daines:

So I just want to just connect the dots here around inflation was sparked. One of the big reasons was massive spending here in Washington and now we're going to be bearing the challenges with higher debt service over the course of the next several years where we're going to see debt service exceeding defense spending, which is we see the threats of China threats around the world. I think it's very, very concerning. Now as a grandfather of four, soon to be five grandchildren, these things you think about more and more as you look forward. I want to change here and talk about American energy.

When the war in Ukraine broke out, money feared that Russia would cut off natural gas exports and cause energy inflation to spike. Prices didn't spike as much as anticipated due in large part the fact that American companies stepped up to the plate. As of late last year, the European Union now receives more liquified natural gas from the United States producers than it does from Russian producers. And that's a good thing for the world to see more US produced energy. Chairman Powell, you believe that European and American inflation would've been manageable if not for American energy producers?

Jerome Powell:

I certainly think that particularly our natural gas assets have helped Europe make the transition.

Senator Daines:

Any sense of how much worse the global energy picture would be if you would imagined a world where we're not producing and shipping energy to other countries?

Jerome Powell:

It'd be hard to estimate.

Senator Daines:

Probably worse.

Jerome Powell:

Yeah, I mean think it's been clearly Europe has managed better than expected and a part of that story is just US energy experts, also the winter wasn't as bad and the Germans made some good decisions.

Senator Daines:

Yeah, we made some prayers. They said we need to pray for a warm winner for Europe. And I think they got one, which was [inaudible 01:41:53] been helpful. I'm out of time here. I'm going to send this back over to Senator Cortez Masto.

Cortez Masto:

Thank you. Chairman Powell, it's great to see you. Thank you so much. I know it's been a long morning. Always appreciate you coming to talk with us here on the committee. I want to first align myself with the remarks from Chairman Menendez supporting a Latino nominee to the open seat on the Federal Reserve. It's been more than a hundred years and a Latino has never served on the Federal Reserve Board. And I know there are many strong Latino economists and economic experts who would capably serve. So I want to put that out there. Chairman Powell, I also sit on Senate Finance, right across the way we are talking about affordable housing. And I think for purposes of so many, many of us across the country, including in Nevada, when we talk about affordable housing, it's also about workforce housing. It's about making sure families that are working so hard have an opportunity to keep a roof over the head.

Right now in Nevada, if you're making minimum wage, you have to work 75 hours a week just to be able to afford housing. And so I want to talk to you about this. I was distressed to see in the report that activity in the housing sector has contracted as a result of the elevated mortgage rates. And you've been talking about that. I often hear from Nevadans who say, "I don't know if I'm ever going to own a home." And many feel resigned being stuck in a cycle of renting. So chairman, how do the Federal Reserve economists and leaders think about the balance between keeping interest rates low to spur that affordable home building and home buying while addressing inflation?

Jerome Powell:

We have a dual mandate from Congress as you well know, which is maximum employment and price stability. And that's really what we take into account. And of course, interest sensitive spending is the thing that gets the most support when we cut rates, and the thing that is most affected when we raise rates, and that means housing to a significant extent. That's not a choice that we make. That's just the way it works. And we only have really one tool, which is monetary policy. So we don't really try to use our tools to affect broader housing policy, but really just to achieve our statutory goals.

Cortez Masto:

It happens to just unfortunately be in effect as you try to achieve your statutory goal, is that-

Jerome Powell:

Yes. Yes.

Cortez Masto:

And so I want to have you have the opportunity to address Senator Warren's conversation with you earlier about the tools that you have and the impact that it has on causing potentially more people to be unemployed. And this obviously has an impact on their ability to afford homes as well. Couldn't you address that?

Jerome Powell:

I'd be glad to. I want to be clear that we do not seek, and we don't believe we need to have a very significant downturn in the labor market. And it's not just hope. I think if you look at the situation in the labor market, you've got all these job openings and in principle you could reduce the job openings without seeing a really significant increase in unemployment-

PART 3 OF 4 ENDS [01:45:04]

Jerome Powell:

... Without seeing a really significant increase in unemployment. Also, you're starting from such a strong labor market, it seems as though you're a long way away from anything that looks like a recession, just looking at the labor market by itself. So honestly, we don't know. We don't know that we need that there will need to be a really significant downturn. Other business cycles had quite different backstories than this one, and we're going to have to find out whether that matters or not. But I do think that, and I've said all along, and my colleagues and I have too, that we believe that we can. There's a path to restoring 2% inflation with less significant effects on the labor market than have typically been seen in downturns.

Cortez Masto:

For purposes of the general public, the Nevadans that I know that are struggling, we have one of the highest ... We've talked about this and thank you for always being willing to talk with me. We have one of the highest unemployment rates in the country. Our service sector was hit so hard. We're still at over 5% just in southern Nevada. We have high gas prices, we have grocery prices, we have housing prices that are high. So one of the things that you have commented on and you just did again, but I know it was in your opening remarks, and it's quoted right here, and let me just say, you say, "Our overarching focus is using our tools to bring inflation back down to our 2% goal and to keep longer term inflation expectations well anchored." For the general public, for those working families and people, why 2%? Why is getting it to 2% so important?

Jerome Powell:

So that has become the globally agreed, essentially all major central banks target 2% inflation in one form or another.

Cortez Masto:

How does that help my Nevada families? How does that help people in Nevada that are struggling?

Jerome Powell:

I'll tell you it does. I guess it's not obvious how that is, but 2% inflation, to have people believe that inflation's going to go back to 2% really anchors inflation there because the evidence is, and the modern belief is that people's expectations about inflation actually have an effect on inflation. If you expect inflation to go up 5%, then it will. If everyone expects that because that's what businesses and households will be expecting, and it'll happen because they expect it. So having a 2% inflation goal, which we had for many years, de facto we had it, then we formally adopted it in 2012, but for years before that we were effectively targeting 2% inflation. And what that meant was ... It's one of the reasons why inflation was low and predictable, is having a real target and sticking to it, not changing it at convenient moments.

So we think it's really important that we do stick to a 2% inflation target and not consider changing it. We're not going to do that. People will be better off if the whole question of high inflation is just not part of their lives. That's the definition of price stability, is if people live their lives without having to think about inflation all the time.

Cortez Masto:

Thank you. I notice my time is up. Thank you so much, Senator Lummis.

Senator Lummis:

Thank you very much, Madam Chairman, and welcome Chairman Powell. When you're setting these rates and making these decisions and seeking that 2% magic number, are you considering the cost of borrowing for the United States knowing that Congress has over borrowed and that we have overspent and that the national debt is at now at least 97% of GDP and the we're going to face challenges of our own making? This is not about what the Fed has done, this is what about the Congress has done, that you have to factor in to your decisions. Do you think about the costs of borrowing for the United States itself?

Jerome Powell:

No, we do not. And we're not going to. In other words, that would be fiscal dominance. If we were constrained in our monetary policy by the budgetary situation of the United States, and we're not, we're clearly not, the path we're on is not sustainable, but the level of debt that we have is sustainable, put it that way. So we don't think about interest costs when we make monetary policy. We think about maximum employment and price stability.

Senator Lummis:

It's your opinion that the level of debt we have is sustainable?

Jerome Powell:

Yes. I mean clearly, we have the largest economy in the world. We can service this debt. That's not the problem. The problem is that we're on a path where the debt is growing substantially faster than the economy, and that's by definition in the long run unsustainable. The way countries fix that is with longer term programs that have bipartisan support and that address the actual problem in the budget. That's really the formula.

Senator Lummis:

Thank you. I'm going to switch to stablecoins. You're a member of the president's working group on financial markets. The working group called for bank-like regulation of stablecoins in late 2021. Then on January 3rd of this year, in a joint staff statement, the federal banking agencies stated that even after the bank's capital, BSA, AML and risk management, a bank issuing a stablecoin on a "Open, public or decentralized network is highly," excuse me, "highly likely to be inconsistent with safe and sound banking practices." I'm going to say that again. Even after a bank's capital, BSA, AML and risk management, a bank issuing a stablecoin on an open, public or decentralized network is highly likely to be inconsistent with safe and sound banking practices. So I'm a little confused about where we're heading on stablecoins. Does the January 3rd statement mean that the Fed has decided that stablecoins on a permission-less distributed ledger have no place in banks?

Jerome Powell:

So I think that there are real concerns about permission-less public blockchains, and the reason is that they've been so susceptible to fraud, to money laundering and all of those things. So I think what you heard from the federal banking agencies in one of their reports was that they would tend to look at those as not consistent with safety and soundness.

Senator Lummis:

And what about properly regulated stablecoins? Do you think they could have a place in our banking system?

Jerome Powell:

I certainly think that in a world of appropriate regulation, where stablecoin activity gets the same regulation as comparable products in different places, then there certainly could be a place for stablecoins in our financial services sector.

Senator Lummis:

Thank you. The European Union, UK, Australia, Switzerland, Singapore and others have all moved over the last few years to create a legislative framework for digital assets. The European Union in particular is attempting to be a standard setter again, like it was with its data protection rule. Is the United States in danger of being a rule taker, not a rule maker when it comes to digital assets?

Jerome Powell:

I do think it would be important for us to have a workable legal framework around digital activities. I think that is important and something Congress in principle needs to do because we can't really do that.

Senator Lummis:

Yeah, thank you. Senator Gillibrand and I agree with you. One area we've already seen is in the Basel Committee on bank supervision. They propose prudential treatment for crypto assets frameworks setting forth bank's capital standards for digital assets. The Basel Committee's framework does not impose a capital charge for digital asset custody, whereas the SEC's staff accounting bulletin 121 imposes a prohibitive capital charge through the back door and places consumers at risk in bankruptcy. Similarly, the Basel Committee framework allows banks to issue or hold digital assets on their balance sheet if the requisite capital is set aside. So back to January 3rd, '23, the Fed and other bank regulators have said that it is forbidden for a US bank to conduct these activities no matter the capital. So my question is, what does the rest of the world know about digital asset regulation that we do not, that the Fed does not?

Jerome Powell:

So as we discussed, this is an SEC staff accounting bulletin. It's not something that the Fed issued and I'd be loath to comment directly on it.

Senator Lummis:

The issue is, and what concerns me, is that the Fed and other federal banking agencies are not following international norms on digital asset regulation. That's just my comment. Thank you, Chairman Powell for being here. I now recognize Senator Smith.

Senator Smith:

Well, thank you. Chair Powell, it looks as if Senator Britt and I are the last people standing at this committee hearing. Thank you for passing on the gavel to Senator Lummis. I want to thank you for your service and for our recent conversation. And before I get into my questions, I would just like to note there's been a good back and forth amongst our committee around some of the big economic challenges and opportunities that we face in this country. And I would just like to note that the programs and the spending that the ranking member and some of our colleagues have blamed for inflation provided critical relief that kept working families and small businesses afloat during a global pandemic. And in fact, many of these policies were passed on a bipartisan basis and signed into law by both Republican and Democratic presidents. I also just want to add that the laws that the Democrats passed to lower prescription drug costs and healthcare costs and to lower energy costs for Americans are helping to lower basic costs for families, all of which, by the way, was fully paid for.

So I return, Mr. Chair, to what you have said to me privately and to all of us publicly, which is what we ought to be looking for is striving for bipartisan solutions to find a path forward. And in fact, Senator Lummis and I were just talking about this yesterday when it came to housing policy. So, just want to put that out there.

When you and I spoke yesterday briefly, we talked about the Community Reinvestment Act. I know that I appreciated the Chair raising this point earlier in the hearing, but I want to just return to that briefly. I am very glad to see it's been about a year since the Fed and the OCC and the FDIC issued the proposed rule to modernize implementation of the Community Reinvestment Act. I don't think that the proposal was perfect by any means, but it does make really important improvements to how, through the CRA, financial services organizations can serve and meet the needs of communities that are full of assets but lack the resources to make it happen like wealthy communities can. So I think Chair Powell, you indicated that you expect this new CRA rule to be finalized in the coming months. Is that what you indicated?

Jerome Powell:

Yes, that's right.

Senator Smith:

Can you just tell us with the departure of Dr. Brainard, who will be spearheading the CRA efforts?

Jerome Powell:

I've asked Vice Chair Barr to be responsible for moving the project forward. Of course, it has to go to the whole board and everyone gets a vote on that, but he'll be pushing it forward.

Senator Smith:

That's great. Thank you. I was glad to see that disaster preparedness and climate resiliency were added to the definition of community development activities that will be eligible for the CRA credit. This is important of course, because low and moderate income folks and the communities that they live in often face some of the worst impacts of climate change and extreme weather events. This isn't social engineering. This is dealing with the actual costs and challenges that people experience because of climate change. So Chair Powell, can you talk to us a little bit about how you see that change and how it fits with the CRA's overarching objectives?

Jerome Powell:

So I think it fits for the reasons that you said. Honestly, I'm a week or so away from getting a briefing on where the proposal lies, so I'm reluctant to touch on it. Again, I'd rather wait until after I'm fully briefed on where that agreement came out, after the FOMC meeting.

Senator Smith:

Thank you. That's fine. I'll look forward to continuing this conversation with you-

Jerome Powell:

As will I.

Senator Smith:

... and with Mr. Barr and just appreciate this. My view of this is that climate change and the economy are inextricably linked, and the reality is that climate related action or inaction has a direct financial impact on people and our economy. I was wondering if you would just be willing to update us briefly on some of the next steps that the Fed is going to be looking at as you evaluate the resilience of financial institutions with respect to climate risk. There's this pilot project that just was started in January, I think it was of this year, and I'm curious to know how you see next steps there.

Jerome Powell:

We're doing really two things. One is we are doing a climate stress scenario, which the banks are already doing, the large banks, the six that we're working with, and that's really just to begin the process of understanding the risks that are associated with this over the longer term. Again, they're already doing it and it's something that there's a lot of learning going on around the world actually. The other thing we're doing is providing guidance. The banks want clear guidance. They actually want one set of rules globally. The big banks that do business around the world, they're hoping that they aren't in a world where there's just different regulatory regimes everywhere they go. So we're working on that as well.

Senator Smith:

Great. Thank you very much, Mr. Chair.

Jerome Powell:

Thank you.

Sherrod Brown:

Thank you, Senator Smith. Senator Tillis of North Carolina is recognized.

Senator Tillis:

Thank you, Mr. Chairman. Chair Powell, thank you for being here. In your opening statement, I was here for that, I think you touched on some of the interest rate sensitive components of GDP and non-interest rate sensitive components of GDP. I think you said that we do have a concern in the latter group, inflation expectations, labor market tightening, et cetera. Can you tell me a little bit about how you're looking at the interest rate sensitive and non-interest rate sensitive readings and what Fed actions can take place to avoid a zero landing?

Jerome Powell:

Sure. So the housing sector, of course is ... Interest sensitive spending is the thing that they're very directly affected by our policies almost right away, and the poster child for that is housing. So you've seen mortgage rates now go back up over 6%. You've seen housing starts coming down. Activity in housing has declined as people are reluctant to get out of the low rate mortgages they had before. So housing activity is slowing down. On the other hand, housing prices went up in the aggregate more than 40% since the beginning of the pandemic. So we may be seeing some price correction on that too. So that's coming along. And housing inflation, which is a big part of the CPI, a little bit smaller part of the PCE, the inflation measures we follow, we rely on, that will be coming down because of the slowdown in the housing market.

I guess I would say the service sector is probably less interest sensitive than that, and that's restaurants, it's travel services, travel and leisure. It's healthcare, it's financial services, healthcare services, all those services. That's a big, big part of our economy. This sector is 54%, I guess, 56% of consumer spending on non-energy and food. So it's very important and it's about having a little bit softer demand and about having some softening in labor market conditions we think. Our tools will work on that, but we do expect that that will take time.

Senator Tillis:

Thank you. I know the chairman in his opening comments mentioned, I belief, I don't want to misquote him, but a belief that we have too little capital in the banking sector. May be true of a couple of banking institutions, but how do you feel about the current capital that our broader banking sector, irrespective of where they are in size, what concerns, if any, do you have about the capital that we see out there already?

Jerome Powell:

So I supported all of the capital raising that we did. I joined the Fed in 2012, and we were in the middle of implementing all those Dodd-Frank increases, and I supported all of them after careful thought and discussion with my colleagues. I think the new Vice Chair is doing what new Vice Chairs do, which is to take a fresh look and ask the question. Even though I think we all agree capital is strong, certainly the Vice Chair does. The question is, is it at the right level? And I think that's what happens with a new Vice Chair for Supervision. We don't have any proposals yet, but at some point we will.

Senator Tillis:

Yeah, I'm going to be meeting with the Vice Chair and we'll drill down on that topic, but I do know, I was over in finance committee so I wasn't here, but I do know that several members ... Well first off, we know that Vice Chair Barr is looking at a holistic review of capital requirements. I think that that's a good idea, but I have to ask a question. Does the Fed consider the bipartisan passed Senate bill 2155, which is currently the law of the land, superior to any of the Basel requirements or any holistic review process? In other words, it is the law of the land. How does that weigh into how these reviews go?

Jerome Powell:

So 2155 was, I think you're talking about tailoring.

Senator Tillis:

Yeah.

Jerome Powell:

So Dodd-Frank actually called for tailoring, and what 2155 did was it said changed may tailor to shall tailor, and it also changed the thresholds. But tailoring is an absolutely bedrock aspect of our bank regulatory system. And anything that we do is going to reflect what we think is appropriate tailoring between the different sizes and risks of the financial institutions that we supervise and regulate.

Senator Tillis:

What we were trying to accomplish as a part of that, I don't expect you to respond, I know that we're coming to the end of the hearing, is that a holistic review of a financial services institution is going to reveal the fact that many of these financial institutions are very different based on the activities that they're most involved in. And those holistic reviews may actually result in increasing capital requirements for two banks that look like peers but not for another because of the inherent risk associated with their business focus. Does that make sense?

Jerome Powell:

To your earlier point though, the law, the Dodd-Frank language as amended actually requires that we take those things into consideration.

Senator Tillis:

And I hope that we will.

Jerome Powell:

So, we certainly will. We will.

Senator Tillis:

Thank you.

Sherrod Brown:

Thanks, Senator Tillis. Senator Warnock is recognized from Georgia.

Senator Warnock:

Thank you so very much, Mr. Chairman. Before I begin my questions, I know that this committee will soon consider a new nominee to serve on the Federal Reserve Board of Governors. And while it has not historically been the case, it seems to me that the board should reflect the diversity of our nation. Those things are connected. Policy and representation are connected. And I hope that we will see sitting before this committee, a nominee that pushes us closer towards our ideals of e pluribus unum, out of many, one. I support Senator Menendez and others who have called for a diverse nominee. Specifically the fact that we've never had a Latino person serve on the Federal Reserve Board I think is a huge oversight, and I hope we can move quickly in that direction.

That said, my state of Georgia is in a housing crisis like much of the country. The Federal Reserve Bank of Atlanta has designated owning a home in Atlanta as unaffordable to the average home buyer. But this is not just a city problem. Harris County, Georgia, with a population of less than 35,000 sitting on the border of Alabama, is also rated as unaffordable. In the midst of this housing crisis, the Federal Reserve continues to raise interest rates. This makes mortgages a lot more expensive for families, especially young families looking to buy a house. According to the National Association of Realtors, the share of first time home buyers is at an all time low, while the average age of a purchaser is at an all time high. Chair Powell, you have said that there has been "an imbalance in the housing market," but if you're a Georgia family, parents in the mid 30s, young children and all you want is to be able to afford your first home and place and build equity to one day pass that equity onto your kids, how are the Fed's actions helping that family afford a home?

Jerome Powell:

Our mandate is to provide maximum employment, use our tools to foster maximum employment and price stability. And we're using those tools really now to restore price stability at a time of the highest inflation in 40 years. I think that the same people who are having high mortgage costs, if they have a floating rate mortgage, are also experiencing high costs for all the basic necessities of life. And one of our most fundamental roles at the Central Bank is to keep price stability. So we have to prioritize that in what we do.

Senator Warnock:

Yeah, I understand the tools and the mandate, but my concern is that we could have a cure that's worse than the disease. It doesn't do families any good if we stabilize housing prices while mortgage rates continue to skyrocket. It doesn't matter to me why a house is unaffordable. Maybe the house is unaffordable, maybe the mortgage is unaffordable. Unaffordable is unaffordable. How does the Federal Reserve continue to consider the total price of home ownership, including costs of mortgages, in executing that mandate to keep prices stable?

Jerome Powell:

Housing inflation is a very important component of various inflation indexes, and the way that's calculated is the economists look at rents, and then for people who own a home, they impute a rent depending on the value of the home. So it actually does factor in. I would say the measures of new leases that are being signed and new housing prices show significant declines in inflation, not in price, but in inflation. And that will play through so that overall inflation over the course of the next six months or a year will decline.

Senator Warnock:

If we're seeing mortgage rates go up, yes or no, does this discourage folks who may have a low interest mortgage rate from putting their home on the market and then possibly paying double the cost on a mortgage for their new house?

Jerome Powell:

It certainly could. People who are in a fixed rate, low rate mortgage, I would assume many of them are not moving.

Senator Warnock:

Does raising the federal interest rate change the cost of borrowing for a company hoping to develop new housing?

Jerome Powell:

Yes.

Senator Warnock:

Does it make it more expensive for suppliers to finance expanding production to meet supply needs?

Jerome Powell:

It does.

Senator Warnock:

Does it give businesses less wiggle room to offer higher wages and attract qualified workers?

Jerome Powell:

Indeed.

Senator Warnock:

So all of these actions have to be taken into account. Federal Reserve does not control housing supply, but its actions do have a massive effect on housing supply. And some of these supply effects, it seems to me will be felt for many years well beyond when interest rate hikes have slowed or rates have even gone down. I know you've got a difficult job and a tough situation, but I just hope that the Fed will think more about its actions and how they affect housing supply, even as it attempts to control housing demand. Thank you.

Sherrod Brown:

Thanks, Senator Warnock. The last question I believe, questioner is Senator Sinema is remote from Arizona.

Senator Sinema:

Thank you, Mr. Chairman. And Chairman Powell, thank you for being here today. In raising interest rates last month by 25 basis points, the FOMC cited Russia's war against Ukraine as a key contributor to elevated global uncertainty. The war has serious implications for global energy and agricultural markets, and as you know, energy inflation in particular can appear in the form of higher prices of other goods and services. This feels like a substantial driver of inflation overall, and in my mind, you can't understand the global economy fully without assessing the range of possible outcomes in Ukraine. As we've also seen, the war created new supply chain problems overnight and has caused abrupt price swings in select committees. How is the FOMC assessing the economic impact of the war and the range of potential outcomes in order to inform how it sets monetary policy?

Jerome Powell:

So the principle ... I guess there are two things to say. One is that the principle way that the war has affected our economy is really through commodity prices, grain and particularly energy prices. That's the main thing. And those have both flattened out. Energy prices globally have settled down and they're at a higher level, and food prices as well to some extent. So the second thing I would say is that it represents a significant risk. So the war in Ukraine, the outcome is uncertain. Developments there are uncertain, and you have to think of it as a source of potential risk to the global economy and to our economy. We look at alternative scenarios and things like that. We don't really do it from a geopolitical standpoint, but we do of course model scenarios where commodity prices are higher and things that would look like what could happen from Ukraine.

Senator Sinema:

Makes sense. Thank you. At home, Arizona families are struggling to navigate this economy. Higher prices are making it more difficult to afford groceries, gas, rent, and airfare. But on the other hand, rising interest rates are crowding out investment and making it more difficult for first time home buyers to buy a home. Inflation has also slowed housing development to a halt in Arizona. And as you know, Chairman, housing is a major economic contributor in my state. It's also clear that more spending comes with trade-offs, and it's why tackling inflation has historically been so difficult, and yet it's more important than ever that we get it under control. There's been much debate about a soft landing, where we get inflation under control without triggering a recession, versus a hard landing where inflation comes down but triggers a painful recession. Some economists are currently saying they see no landing right now, that growth is actually accelerating and that more aggressive actions will be needed to get inflation under control. If true, that would be problematic. What do you think about that assessment?

Jerome Powell:

Well, as I mentioned earlier, I think if you look at the data that's been coming in since earlier this year, you have seen stronger labor market conditions, higher inflation, stronger consumer spending, and also we saw some of the low inflation readings from the fourth quarter of last year revised away. If you take all of those, they may be to some extent related to things like seasonal adjustments or a warm January. But nonetheless, they all point in the same direction and they do suggest that the possibility that we ultimately would need to raise rates higher than had been expected. Of course, we have two or three more very important data releases to analyze before the time of the FOMC meeting. Those are going to be very important in the assessment we have of this relatively recent data. We'll be looking carefully at that. And all of that will go into making the decision, which we have not made, but making the decision that we'll make about what to do at the March meeting.

Senator Sinema:

Thank you. On February 23rd, the FFA, the FDIC and the OCC released another joint statement on crypto assets and liquidity risk posed to banking organizations. It's clear that regulators see undue risk for banks in the current environment and are taking a more conservative approach. Do you believe these risks are inherent to crypto assets and how they behave, or are some of the risks a product of the current regulatory policy landscape for crypto assets in the US?

Jerome Powell:

So we're seeing really in the last close to a year now, we've seen just a remarkable set of events in the crypto space. Lots of companies collapsing. We've seen massive fraud. We've seen all kinds of things. I think we have to be open to the idea that somewhere in there, there is technology that can be featured in productive innovation that makes people's lives better. However, in the near term, we see in crypto activity, lots of things that suggest that regulated financial institutions should be quite cautious in doing things in the crypto space. We've issued three or four releases to the banks, along with the OCC and the FDIC, the Fed has. They essentially say, "You really need to be careful here. You need to be careful." It's early days with crypto. There isn't the appropriate regulation. We're learning lots about the risks, and they are many of the same risks that run in other parts of the financial system, but without appropriate regulation.

Sherrod Brown:

Thank you, Senator Powell.

Senator Sinema:

Thank you.

Sherrod Brown:

Thank you, Senator Sinema. We conclude the hearing. The Fed must make sure that workers and families are at the center of every decision it makes to strengthen our economy. We've heard a lot today about the role that Wall Street plays in our economy too. As you've said, Mr. Chair, we know that higher capital requirements make banks safer and stronger. It allows them to make investments in their workers and their communities and our economy. That's what they should be doing instead of spending billions on buybacks. I look forward, Chair Powell to working with you to strengthen our economy.

For senators who wish to submit questions for the hearing record, these questions are due one week from today, Tuesday, March 14th to Chair Powell. Please submit your responses to questions for the record 45 days from the day you receive them. I thank my colleagues for the very, very good attendance today. Only one member on each side was not here. One for health reasons, the other just because he's doing 12 different things. So I appreciate all that and thanks for your testimony, your public service, Mr. Chairman.

Jerome Powell:

Thank you, Mr. Chairman.

Sherrod Brown:

Meeting is adjourned.