Chairman McHenry:

Objection. All members will have five legislative days within which to submit extraneous materials to the chair for inclusion in the record, and I'll note at the outset that this hearing has a hard stop of 1:00 PM. This is traditional for the Fed chair and which we intend to strictly observe. I now recognize myself for four minutes giving an opening statement. Thank you Chairman Powell for your testimony today. This week you stated that the Fed will "stay the course until the job is done" and that is to restore price stability. This is positive, but you know as well as I do, you're facing a very strong headwind from the political left.

Democrats are pressuring the Fed to stray from its narrow mandate. It's a page out of their same old progressive playbook. When they don't have the votes to achieve something here in Congress, they turn to regulators. And now Chair Powell, they're looking at you in the Federal Reserve. President Biden's cowtowing to the far left is what got us into this inflationary mess. I urge you to reject the ideologues who put their social agenda ahead of economic prosperity. High prices continue to eat away at workers' wages and retirees incomes. Since President Biden took office, we've experienced inflation rates not seen since the late '70s and early '80s.

Inflation rapidly accelerated after Democrats passed their so-called American Rescue Plan, which poured nearly $2 trillion of inflationary fuel into the economy. By June of last year, the consumer price index showed inflation skyrocketed from below 2% to nearly 9% and personal consumption expenditures, the Fed's preferred measure of consumer prices, ballooned to 7%. Instead of being rescued by Democrats, Americans were punished with pain at the grocery store and sticker shock at the pump.

While inflation is now below its mid 2022 peak, it is persisting at rates well above the Fed's target. It remains broad based and continues to hammer Americans' pocketbooks. In fact, a recent Gallup poll shows half of the respondents say they are worse off financially than a year ago. It's clear that there's still a long way to go in the effort to bring down costs. I look forward to hearing you reaffirm your commitment to that work today.

Republicans also want to hear from you regarding some concerning developments at the Federal Reserve on the regulatory front. Recently the Federal Reserve's vice chair for supervision announced "a holistic review" of bank capital in the Fed's regulatory regime. However, it seems that only a small group within the Fed knows what this means, what it entails, how much review is being vetted by the full board and the type of quantitative analysis the Fed is performing. The Fed shouldn't operate in the shadows, especially when the regulation in question can have broad and significant economic effects.

It's also unclear the motivation for the Fed's holistic review, particularly when so many board members have stated that the banking system is very well capitalized and any review of capital standards should be targeted. It also appears the Federal Reserve Board is laying the groundwork for climate policy to be implemented through the Fed regulation with an opening salvo of "scenario analysis". Addressing an issue like climate change is important, but a policy that should originate here in Congress by the elected representatives of the people, not the central bank. As you said, the Fed needs to-

Ms. Waters:

[inaudible 00:04:11] chairman. Good morning, Chair Powell. Since your last visit, our country under the leadership of President Biden has made major progress to improve economic conditions, including adding a record 12 million jobs, reducing unemployment to its lowest rate in 54 years, while also reducing the deficit by $1.7 trillion. Unfortunately, many families are still struggling to afford basic necessities because of inflation. What's more, interest rate hikes are making borrowing, especially for mortgages outrageously expensive. Since I raised this concern for you in a November letter, the rate hikes continue to have an outsized impact on housing cost, which are as you know a primary driver of core inflation.

But Mr. Chair, I think that you will agree that Congress also has a role. That's why I'm somewhat disappointed that after two months, Republicans have taken no serious action to address inflation. By this time last Congress, House Democrats had passed the American Rescue Plan to provide relief from the ongoing pandemic, which included our committee's efforts to provide $70 billion for homeowners, renters, businesses and first responders. If Republicans are looking for ideas, committee Democrats have put forth additional bills like the Bill Back Better Act to bring down costs for Americans, especially housing costs.

Even more concerning, we're just months away from an economic catastrophe beyond what we have ever seen, including spiking interest rates, massive job losses and global instability. I'm talking about the threats by Republican leadership to force a default on our nation's debt if we don't agree to their demands to cut Social Security, Medicare or other critical programs. You've urged Congress to take immediate action to raise the debt ceiling, but rather than focusing on this very real issue, the first bill that committee Republicans brought to the floor instead suggested that Social Security and Medicare are socialist threats to America. Since then, we have considered legislation related to deregulating securities and banking laws, encountering threats from China, but Republicans have completely ignored the biggest economic threat to businesses, consumers, and our economy defaulting on our debt.

Last month, I wrote a letter to Chair McHenry urging him to take this matter seriously and hold a hearing, but I'm still waiting for a response. I hope Republicans will listen today to the real consequences that even the mere threat of a default would have for everyone in this country. And finally, I'm so pleased that we are finally making progress on diversity and inclusion for key positions at the Fed, including last year's historic confirmation of Dr. Lisa Cook to serve as a very first black woman on the Federal Reserve Board with the board's vice chair and Kansas City Fed President positions vacant. I think President Biden and Kansas City Fed Board should build on this progress by seriously considering diverse candidates for these positions. With that, I yield back the balance of my time.

Chairman McHenry:

The ranking member yields back the balance of my time asking him his consent to submit for the record my letter to Secretary of the Treasury Janet Yellen from February 28th asking for an update on the X date for the debt ceiling. I also ask unanimous consent to submit for the record the latest CBO long-term budget outlook on the unsustainability of our debt most recently released, and without objection, so ordered. I'll now recognize the Chair of the Financial Institution Subcommittee chair, Mr. Barr for one minute.

Mr. Barr:

Thank you Mr. Chairman and Chairman Powell. Thank you for being here today to discuss the Federal Reserve's monetary policy actions in a time of economic uncertainty, mixed economic data, historic inflation that continues to plague families and businesses around the country. It is paramount that the Federal Reserve remained vigilant on reducing inflation, anchoring inflation expectations and restoring price stability at the Fed's 2% target. I also look forward to discussing the Fed's regulatory and supervisory activities.

As the Fed reviews the bank capital framework, it needs to consider the impact to the real economy and our global competitiveness when raising capital requirements and sidelining capital would work at cross purposes with monetary tightening, constraining the supply side when we need more not less investment to fix supply chains and reduce inflation. Tailored regulations are required of the Fed by law and a one size fits all approach would be the wrong path to take. Finally, I urge the Fed in your words to stick to its knitting and not attempt to be a climate regulator. I yield back.

Chairman McHenry:

Gentleman's times expired. We'll now recognize the ranking member financials institution subcommittee, Mr. Foster for one minute.

Mr. Foster:

Thank you and thank you Chair Powell for being here today. Today is the 15th anniversary of when I was first elected to Congress and placed on the Financial Services Committee just as the economy was about to collapse. And so that was my trial by fire, the emergency response to rescue the economy and the legislative response, the Dodd-Frank Act that successfully stabilized our financial system. So 15 years later, as I take my place as the ranking member on the committee of oversight over US banking and monetary policy, I recall the solemn oath that I swore to myself back then to make sure that this kind of calamity never happens again.

The monetary policy report that we're receiving today is largely a narrative of a return to normal and lead times to manufacturers are back to pre COVID levels. The job market retains supernatural strength and inflation is responding more or less as predicted to the usual measures, and by far the largest threat on the horizon is a repeat of the 2011 default crisis. Congress has the power to avoid that and we owe it to the American people to do so, and I yield back.

Chairman McHenry:

Today we welcome the testimony of Jerome Powell, chair of the Board of Governors of the Federal Reserve System. Chair Powell was reappointed and sworn in for a second four year term as chair on May 23rd, 2022. Chair Powell also serves as chairman of the Federal Open Markets Committee and the systems' principal monetary policymaking, which is the systems' principle monetary policy making body. Chair Powell, we thank-

Mr. Foster:

... to do so and I yield back.

Chairman McHenry:

Today we welcome the testimony of Jerome Powell, chair of the Board of Governors of the Federal Reserve System. Powell was reappointed and sworn in for a second four year term as chair on May 23rd, 2022. Chair Powell also serves as chairman of the Federal Open Markets Committee and the systems principle monetary policymaking which is the systems principal monetary policymaking body. Chair Powell, we thank you for taking the time to be here. We will recognize you for five minutes. Give an oral presentation or testimony without objection. Your written statement will be made part of the record. Chairman Powell, you're recognized.

Jerome Powell:

Chairman McHenry, Ranking Member Waters and other members of the committee, good morning and 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've covered a lot of ground and the full effects of our tightening so far are 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 will 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 had 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 the revisions to the previous quarter suggest 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 our longer run objective of 2%. 12 month change in total PCE prices 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 has restrained demand, inflation in the core good 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 is little sign of disinflation thus far in the category of core services, excluding housing which accounts for more than half of core consumer expenditures. To restore price stability, we will need to see lower inflation in this sector and there will very likely be some softening in 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 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 remain 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 historic 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 bring inflation down 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'll 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's 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, and I stress that no decision has been made on this, but 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. We at the Federal Reserve will do everything we can to achieve our maximum employment and price stability goals. Thank you. I look forward to your questions.

Chairman McHenry:

Thank you, Chairman Powell. I'll now recognize myself for five minutes for the purposes of questioning. Chairman Powell, there's been a lot of discussion over the last 24 hours about the effect of rate increases on the economy, A lot of debate about what you said yesterday in the Senate. But no one asks you this directly. We have a March meeting coming up, open markets committee meeting coming up in two weeks. How do you think about the March meeting? What's your approach to that? What are we likely to see?

Jerome Powell:

Thank you. So I won't repeat what I just said in my testimony, but if I turn to the March meeting, I guess I would say that we have some potentially important data coming up, data to be analyzed. One of them came out at exactly 10:00. That would be the Jolts report, which of course I haven't seen having being sitting here at 10:00. We're also getting a jobs report on Friday and a CPI and PPI inflation report next week. So those will be important and we'll scrutinize them.

When we say that we're going to be looking at the totality of the data, which is what I said, that does include these reports yet to come. They're going to be important in our assessment of the higher readings that we have very recently received and of the overall direction of the economy and of our progress in bringing inflation down. And we'll be carefully analyzing them. Again, we have not made any decision about the March meeting. We're not going to do that until we see the additional data. The larger point though is that we're not on a preset path and that we will be guided by the incoming data and the evolving outlook.

Chairman McHenry:

But you've also said higher, longer. Is that still the case?

Jerome Powell:

Yeah, as I said in my testimony, we look at the data since January and also the revisions to the November and December inflation data and they suggest that the ultimate level of interest rates is still higher than we'd expected.

Chairman McHenry:

What are those economic factors?

Jerome Powell:

So going back to January, as I mentioned, the softer inflation readings of November and December were revised up. We got a very strong inflation report for January. We got an extraordinarily strong employment report, very strong consumer spending, strong manufacturing data right across the board. A I pointed out, some of that may have been affected by the very warm January weather, but nonetheless, all of it pointed in the same direction.

Chairman McHenry:

Okay, let's move to regulation. Chair Powell, in January the Federal Reserve put out a policy statement noting that digital asset custody is permissible activity if done in a safe and sound manner. However, if a bank can demonstrate to the Fed that it can conduct that activity in safe and sound manner, the capital impact of the SEC's staff accounting bulletin effectively precludes banks from offering digital asset custody service at any scale. Are you aware of this staff accounting bulletin by the Securities Exchange Commission and its impact on custodial services?

Jerome Powell:

I am aware of it. Of course, it's an SEC accounting bill. This is SAB 121, I think.

Chairman McHenry:

That's right.

Jerome Powell:

Certainly aware of it. And we do follow general accepted accounting principles in our capital regulation.

Chairman McHenry:

Well without objection, I'll submit for the record my letter to the bank regulators about this. So while the Fed says it can be done in a safe and sound manner, the Secures Exchange Commission's regulated it so that it cannot be done. Next question is certainly about bank capital standards. You got questions about this yesterday. Chair Barr has announced a holistic review of capital requirements. As I said in my opening statement, there are a lot of questions about this process and previous statements by members of the Fed Governors about the adequacy of current capital standards.

And so while the vice-chair for supervision is announced that the Fed will engage in a holistic review of capital regulation, is that Fed staff? Is that done at the board level? What is the process? There are a lot of questions that people have about his statements. And so we want to understand why it's necessary for the Fed to conduct a holistic review and what that process is. And so my general question is, do you still agree with your previous statements about the adequacy on a generalized basis of our financial system or are we to read into this that we're not adequately capitalized and there's a high level of risk in the system that we're unaware of at this point?

Jerome Powell:

Thank you. So the why really just is that as a new vice chair for supervision, Vice Chair Barr has launched into ... he's taking a fresh look at everything including capital that actually is typical of the last two people to have this job. So that makes a lot of sense. In terms of the process, it's certainly conducted under Vice Chair Barr's leadership with input from the staff and discussions with governors on that committee. And I'm kept broadly apprised about what's going on, but the bottom line is nothing has been proposed to the board, nothing has been formalized at this point. It's a lot of work that's going on. I think discussions are going on, meetings with industry and that kind of thing. When we get to that, to the place where that's appropriate, the board will be carefully briefed. Ultimately, we'll vote on a proposal and that proposal will go out for comment and we'll solicit comment from any and all commenters and we'll look very carefully at that. So it'll be a wide open process in the sunshine.

Chairman McHenry:

Thank you. I yield back. Now, recognize the gentlewoman from California, the ranking member Ms. Waters.

Ms. Waters:

Thank you very much. Chair Powell, I agree with what you said on February 1st that Congress must raise the debt limit, because of what you described as a highly risky consequences of failing to do so. You are perhaps the most important expert on the debt limit, which is why I find it very concerning that your recommendation to raise the debt limit in a timely manner is being ignored by my colleagues on the other side of the aisle. I'm also concerned that the consequences of this brinksmanship are imminent. Fitch ratings said this week, they may seriously look at downgrading the US debt based on the escalating brinksmanship they are observing even if Congress ultimately addresses the debt limit at the last minute. This is history repeating itself, Standard and Poors downgraded our debt back in 2011 when Republicans last controlled the House and threatened default. The bipartisan policy center later found that the 2011 debt limit debate cost us $18.9 billion in higher borrowing costs, even though we never defaulted.

To put that into perspective, that could have been leveraged to provide up to 200 billion in loans to small businesses through the state small business credit initiative or to provide hundreds of thousands of people downpayment assistance to buy their first home. So I want to emphasize that house Republicans, including most of the Republicans on this committee, had no qualms about paying our debts when Trump was in office. Three times they addressed the debt ceiling in a timely manner without holding our country hostage. But Republicans now are ready to tear down the hard work of Americans everywhere, to weather the pandemic and build back a strong recovery chair. Chair Powell, can you describe for us the risk you see if Congress continues to delay actions on the debt limit, both for our economy and for individuals and families?

Jerome Powell:

Let me start briefly by saying that we have no role and seek no role in what is really at the heart of fiscal policy, except I will limit myself to the two things that other Fed chairs have said about this. One is just that Congress raising the debt ceiling is really the only alternative. There are no rabbits in hats to be pulled out on this. Two, really is just that no one should assume that the Fed can protect the economy from the non-payment of the government's bills, let alone a debt default or something of that nature, which we don't think will happen here. But no one should be thinking that we have the tools to protect the economy from all the potential effects of that.

Ms. Waters:

Thank you very much. I don't want to miss what you said. I somewhat quoted you when you said that Congress must raise the debt limit because of what you described as a highly risky consequence of failing to do so. Is that your language?

Jerome Powell:

Well, must in the sense that that's really the only way for the debt limit to be raised is Congress must act. Again, these are fiscal discussions and we're don't want to be a part of them. And really they're between elected officials.

Ms. Waters:

But you are an expert on the subject?

Jerome Powell:

Well, I spent a lot of time on this as you'll recall [inaudible 00:28:12]

Ms. Waters:

As an expert on this subject, you are concerned about the high risky consequence of failing to do so. Is that correct? Did I correctly quote you?

Jerome Powell:

That's correct.

Ms. Waters:

Thank you. And so again, let me just go a little bit further. The Chair mentioned that he had either written a letter or maybe even had some conversation from Janet Yellen about the time limits that she had attempted to describe. Is it your understanding that she said she could maneuver and manipulate things so that she paid the bills that were coming due, but this could only last until about June? Is that your understanding?

Jerome Powell:

Honestly, I would really have to not try to interpret the Secretary's words for you. That's really up to her to do.

Ms. Waters:

Can she keep us afloat until about June?

Jerome Powell:

Honestly, that's not for me to say. These are really questions for the Secretary. I'm sorry, Ms. Waters.

Ms. Waters:

Have you had any conversation with her about the statement that she made about being able to manipulate the debt and pay bills that were coming due out of another account, et cetera? Did you have that conversation with her?

Jerome Powell:

The conversations that you and I have privately don't go anywhere. I don't talk about them with anybody. And the conversations I have with Secretary Yellen, I don't.

Ms. Waters:

Okay. And I don't want to get [inaudible 00:29:48]

Chairman McHenry:

Gentle lady, time is expired.

Ms. Waters:

I beg your pardon.

Chairman McHenry:

The general lady's time expired.

Ms. Waters:

Did I have equal time with you?

Chairman McHenry:

You sure did. He went over time. I-

Ms. Waters:

If I did, thank you. I yield back.

Chairman McHenry:

I'll now recognize the vice chair of the full committee-

PART 1 OF 6 ENDS [00:30:04]

Speaker 1:

I yield back.

Mr. McHenry:

I now recognize the vice chair of the full committee, Mr. Hill of Arkansas.

Mr. Hill:

Thank you Mr. Chairman and thank you Chair Powell for being with us. You're welcome anytime. Don't wait till we ask if you want to volunteer and come. We love having your views on many topics. Thanks for talking about your commitment to price stability. We've had this discussion last June between us of, I do think that's the primary mission of the Fed and I think it should be the only priority of the Fed is price stability, because it's the legislative branch and the executive branch that really are responsible for quote "full employment" and having that policy environment and making sure that that's right. So your commitment to price stability is welcomed by this committee.

Yesterday in the Senate you suggested that you supported a broadly regulatory framework for digital assets, is that right?

Jerome Powell:

Yes.

Mr. Hill:

And is it your view that if we had a regulatory framework here in the United States for digital assets, that there'd be more transparency and rules of the road for both consumers, investors, and developers?

Jerome Powell:

Absolutely.

Mr. Hill:

And would it, if we had those rules of the road for business seeking to use and develop blockchain as a potential new technology in their business and tokenized payments, that again, that would be beneficial to business to know how to go about that?

Jerome Powell:

Yes, and to assure that it's all done in a safe and sound manner when we're talking about banks.

Mr. Hill:

Right. And then as my next point would be exactly that to help banks, investment brokers, custodians understand how they could even participate in that market in a safe and sound manner. You agree that a regulatory framework would help on that?

Jerome Powell:

Yes.

Mr. Hill:

And then finally, we've grown up in our country and it's unique in the world that we have a dual banking system. And due to a quirk here in Congress over 100 years ago, we have insurance is regulated exclusively by the states. So would you believe that that regulatory framework would also have to preserve some sort of role subject to safety and soundness for states to play some role in that regulatory framework for digital assets?

Jerome Powell:

Let me just say, I think that it certainly works in banking and insurance. I have no problem with those. I'd have to think about-

Mr. Hill:

Right. But you'd consider it possible that it could also work in digital assets?

Jerome Powell:

Certainly possible.

Mr. Hill:

Yep. Thank you. Turning to a topic that's been a subject here for nearly four years, Central Bank Digital Currencies, Article One of the Constitution reserves coins and money issuance to the Congress. And we've in turn delegated that to the U.S. Treasury, which is since 1912, engaged the Federal Reserve as their fiscal agent. You've testified here many times before that to issue a central bank digital currency that would have to be authorized by statute, by Congress. Is that still your testimony?

Jerome Powell:

That is absolutely the case as it relates to a retail CBDC. There are potential forms of a wholesale CBDC that we need to look at, it's less clear. But we've always been talking about retail CBDC, and that's something we would certainly need congressional approval for.

Mr. Hill:

And what would be a parameter on something that's not a retail CBDC, where you think that that could be issued in some form or fashion without Congress's direct statutory authorization?

Jerome Powell:

For example, it would just be something between banks. So it would look an awful lot like a bank reserve. And you might ask why would we need it? And that's a really good question too. But it's just something that's literally within a wholesale market.

Mr. Hill:

But that speaks that you might have a blockchain between banks and the Fed using a central bank digital currency token to settle transactions institutionally inside the-

Jerome Powell:

Yes.

Mr. Hill:

Yeah.

Jerome Powell:

Yes.

Mr. Hill:

So that leads me to FedNow, which is supposed to be up and running I think this summer, somewhat behind the scene there. I would like to ask you to formally have this full committee briefed on that by the Federal Reserve. I know the chair of the Kansas City Bank was involved. She's now left. And I think the committee has a lot of questions about FedNow, how it's interoperability will work, how it's going to roll out. And also just a question that we've been asked that why the Fed wire system isn't up 24 hours a day, seven days a week now to benefit consumers that are using Venmo? Do you have a thought on that?

Jerome Powell:

I'm not sure why we're not 24/7 on that. And we'd of course be delighted to come up and brief the committee on FedNow.

Mr. Hill:

That'd be good. We'll take you up on that. And the right person from the Fed. And Mr. Chairman, I yield back.

Mr. McHenry:

Gentleman yields back. We'll now recognize the chair of the... I'm sorry, the ranking member of the capital market subcommittee, Mr. Sherman of California for five minutes.

Mr. Sherman:

Thank you. Mr. Chairman, I want to thank you for bringing to our committee's attention several years ago the importance of tough legacy LIBOR, some 16 trillion of instruments where the creditor wouldn't know how much the debtor was supposed to pay. This committee, we passed legislation over a year before the LIBOR hit the fan. You issued regulations seven months before the absolute deadline. I hope we do this in other areas and it's my understanding that with those final regulations we're done and we've solved the LIBOR issue, is that correct?

Jerome Powell:

That's my understanding as well.

Mr. Sherman:

Good. People talk about inflation and they somehow say that it's a matter of the personalities and politics in the United States. Others argue that the entire world is hit by inflation because Ukraine and COVID. I think we've got the answer to this question in that inflation is considerably higher in the Euro zone than it is in the United States today. And it's very hard to say that Joe Biden is responsible for inflation in Germany. I commend the ranking member for bringing up the debt limit and the harm that's already done to our economy. If we solve the problem tomorrow, we had less investment than we would've had yesterday. And I would say that I commend the president, he's going to issue a budget plan tomorrow and perhaps in their time one of our Republican colleagues can tell us when the Republican budget plan will be released. We are all eagerly awaiting it. Housing is a huge part of inflation and we've left it to local government, but the permitting process there guarantees scarcity, which guarantees high housing costs.

Mr. Chair, we've talked back in 2001 and several times even before that about wire fraud and having just bought a home, I saw the process up front. Everybody's very nervous about one thing and that is will the buyer of the house be tricked into wiring their down payment to the wrong account? Or will the buyer be tricked in or the escrow agent be tricked into sending the money to someone other than the seller of the property? We talked about this back in 2001 where I urged you with your FedNow system, which I'm glad is on track to move forward to have what the Brits have. When you send the wire, you identify not only the number of the account you're sending it to, but also the name of the person or entity that's supposed to receive that.

At that time, back in 2001, you said that payee matching is not the best way to do it. There are other ways to do it and that you'd be happy to get back to me as to how you're going to make sure that an email from a Nigerian prince does not get the wired funds, particularly in a housing transaction, wired to an account number that turns out to be in Legos. What progress do you have? When can home buyers have a system where they're sending it to a named payee as well as to a number?

Jerome Powell:

So I hope we did come back in a timely way to you on that, but it's a problem you've brought to our attention, you're right, over many years and we continue to focus on that.

Mr. Sherman:

Well the bureaucrats who are working on this don't want to do what the Brits did. They've proven it can be done. You said you were going to accomplish the same goal in some other way and it has been a while and it's not soft nor are you aware of any solution. I would hope that you would go back and say, we don't want to add this anxiety to every real estate transaction. Go back to the drawing boards, follow what the Brits have done and have pay matching.

Finally, as to crypto, cryptocurrency says what it means, hidden money. That's what it means. And if we impose know your customer and anti-money laundering statutes to it won't be crypto anymore. What crypto wants is to have part of its ecosystem above the water line visible and subject to know your customer and then have the rest of the iceberg below the water line.

Mr. McHenry:

Gentleman's time is expired.

Mr. Sherman:

My time is expired.

Mr. McHenry:

I will now go to the gentleman from Texas. Mr. Sessions is now recognized for five minutes.

Mr. Sessions:

Chairman McHenry, thank you very much. Chairman Powell, thank you for joining us today. We appreciate not only your professionalism but your direction at us. Chairman Powell, I know that the Fed considers divergences and you talked about as you spoke in your opening statement about consumer price index, personal consumer expenditures, inflation, GDP. And all these things are talked about in your Monetary Report, March 3, 2023. Thank you.

A couple days ago I had an opportunity to see an economist. Arthur Laffer produced a report that spoke about literally this country doubling GDP. Now I know we're putting CPI, PCE, inflation, all these things into a mix. But he said that if we made changes in healthcare to efficiencies, we could double the current GDP rate. My question to you that I hope you can answer is what do you think about that? Is that something that is in this document that I have missed? And it's seemingly to a person who follows this as Art Laffer does for 50 years, what do you think is an important way to look at efficiencies in healthcare? Thank you.

Jerome Powell:

So no, that that's not in our Monetary Policy Report. I just say one thing and that is we do spend something like 1.7... Sorry, 17 or 18, in that range, percent of GDP delivering healthcare. Other similarly wealthy countries spend 10%. So it's the delivery system. It's not that the benefits are incredibly rich or anything like that, it's just that the delivery system is very expensive. That's a trillion dollars a year that we spend and get nothing for it. This is fiscal policy, but I'm responding to your... So I would think that he may have meant that if we had a delivery system that saved that trillion dollars that doesn't really get us anything, then that would be great for the economy, which I would agree with.

Mr. Sessions:

So you've spoken of supply chain disruptions because it in fact is an inhibitor or an accelerator as we gain that advantage. You just talked about some seemingly which would offer some validation to Mr. Laffer as he spoke about the huge importance of this. Is that something you should start paying attention to where policy people not only at the Fed but your Fed banks around the country would start looking at and start putting pressure on us to gain those efficiencies as a result of a global view?

Jerome Powell:

So on supply chains generally, they have suddenly been tremendously important in inflation as you know for the last couple of years. And for the first time really have been something that we've had to study carefully. In terms of healthcare delivery, that is strictly a question for you and for the parts of the government that are charged. The Fed does not have a role to play and does not seek a role in that.

Mr. Sessions:

Does not seek a role. And yet as I look at this, you've got a role in projecting confidence. You've got a role in education. You've got a role in who's in the workplace. You've got a role in interest rates. And yet my point is, it's such a staggering number that impacts us, just love to have you go back, perhaps we from this committee need to give you some direction on that. But I think your testimony today, it recognizes the staggering impact on that. I don't think it's political. The answer may be political, but I think the actual numbers are not political. It's an inefficiency that is happening across the country, not a regional matter. And so I wanted to get your take on that. And I appreciate you being here. As always, thank you for your confidence and your hard work that you give this country. Mr. Chairman, I yield back my time.

Mr. McHenry:

Gentleman yields back. We'll now recognize the ranking member of the agriculture committee, Mr. Scott of Georgia for five minutes.

Mr. Scott:

Thank you very much, Chairman and welcome back, Chairman Powell. Now Chairman Powell, listen to me very carefully here because I think we are on the verge of making a terrible mistake. Back in 2008, if you recall, Barney Frank then and Ms. Waters asked me to take a look and kind of work with you and the Fed. You were a board member in 2008. And we came to the conclusion that we needed a more equitable playing field between our large banks like Goldman Sachs, City Group and our regional and smaller banks like Truist and our community banks. And we changed that.

But now I hear that the Fed and the FDIC plan to drop a new rule which seeks to apply the long term and higher capital requirements that were created, and you and I did this back in 2008 and you'll remember that rule created for the Goldman Sachs and for them. And now we want to apply these rules to the regional banks. There's a big difference. And we've omitted this difference if you proceed in this manner. I think it's very misguided. It works, and you and I worked on this. You recall this, you were a board member. And we saw that we needed to have a better playing field to protect. And if you all go along with this, it could put many of our regional banks and small community banks out of business. So I want you to reverse this. First of all, tell me, am I speaking the truth? Are you all planning to all of a sudden here put these smaller and regional banks under the same heavy financial load as your large worldwide banks? Tell me.

Jerome Powell:

No, we're not planning that. We believe strongly and always have in tailoring to address the different size and risk characteristics of financial institutions, and certainly nothing like that for the regionals. They won't have anything like what the very large, most systemically important banks have in terms of overall regulation.

Mr. Scott:

Yeah, because I remember clearly you and I were back, I think we were on this side then talking about this in this same committee room and you worked with us on that. I'm glad to hear that. Where's that coming from? I mean, it's a concern. It's just a rumor? Have there been any discussions about removing the playing field and the guardrails that we have here, the differentiations in the requirements between the regional banks, community banks, and your larger global banks? There's nothing to that?

Jerome Powell:

Well, I would say this, we were required by the law now and we're doing this, Dodd-Frank actually required us-

Mr. Scott:

Yes, we did.

Jerome Powell:

... or suggested that we should tailor. And then the S2155 then required it. And anything that we do will reflect appropriate tailoring.

Mr. Scott:

All right. So that's off the board? We're not going to change and put the smaller and regional banks under the same financial obligation role as the large banks? We got that right from you, correct?

Jerome Powell:

Yeah, that's right.

Mr. Scott:

All right, good. Now let me turn to China. I'm really worried about China. And right now people may not know it, but China is the world's largest economy in terms of purchasing power. Now, at our last meeting, I talked about this move where we didn't blow the balloon up. And this is an example of what I was pointing out.

Mr. McHenry:

Gentleman's time is expired. We'll now recognize the chair of the science committee, Mr. Lucas of Oklahoma for five minutes.

Mr. Lucas:

Thank you Mr. Chairman. Chairman Powell, I'd like to follow up on the topic of capital standards, one of those things we've discussed many times together. As you know, commodity markets have seen significant volatility in the last few years. And during times of tremendous economic uncertainty, like we've seen, end users turn to the markets to hedge risk, particularly those in the agriculture and energy sectors. And I know that the Fed is early in the review process of potential changes in capital requirements. Well, I'll ask anyway. Can you commit to ensuring that these changes will not increase the cost for banks providing those commodity derivatives to end users?

Jerome Powell:

That's a really specific, can I go look at that? I mean, I'm not actually sure that the work even addresses that, so-

Mr. Lucas:

Fair point.

Jerome Powell:

... I'm going to come back to you on that.

Mr. Lucas:

And that particular response makes me feel better. Because after all, those products are very important to my folks and make a great deal of difference in how they're able to address their issues. So, as you discussed earlier, and as you've consistently assured, the Fed's not a climate making policy maker. You and I have talked about this issue again many times in the past. However, I'm concerned that the Fed could be heading in that direction and could be laying the groundwork for climate related stress tests that would reduce access to capital for entire sectors of the economy. This would also open up the Federal Reserve potentially to political pressure and force the Fed in fact, to make policy decisions related to climate change. We've seen, for example, this administration turn to regulators to impose climate policy as an alternative to the legislative process. Chairman Powell, how careful are you in ensuring that the Fed does not place itself into the climate debate? And how can Congress ensure that the Fed's regulatory toolkit is not, shall we say, warped into creating climate policy outcomes?

Jerome Powell:

So I think we do have a narrow but real role there, which is around bank supervision, making sure the banks understand and can manage their risks over time from climate. I think my colleagues and I all understand that it's a tightly circumscribed role that we're playing and that we're not looking to move into an area where we're actually becoming a climate policy maker. I would completely agree with you though, that over time that border needs to be very carefully guarded. And I will tell you that I will do that as long as I'm at the Board of Governors.

Mr. Lucas:

I very much appreciate that, because again, it's a very important issue to the third district of Oklahoma, traditional production, agriculture, oil and gas, and the actions that the Fed takes have a significant impact back home. So it's vital that we resist the demands to do that sort of thing now or in the future. And I very much appreciate that response. And with that, I'll yield back the balance of my time, Mr. Chairman

Mr. McHenry:

Gentleman yields back. The gentleman from Massachusetts, the ranking member of the Digital Asset Subcommittee, Mr. Lynch is recognized for five minutes.

Mr. Lynch:

Thank you Mr. Chairman. And thank you Mr. Chairman, and for your willingness to come here and to update us. Last week, the Treasury Department announced that leaders from treasury would begin to meet regularly with leaders from the Fed and from the White House to discuss a possible CBDC, central Bank digital currency and other payment innovations. In the statement, it was mentioned, and I'll quote from it. It said that, "The Fed is encouraged to provide periodic public updates as it continues its research and its technical experimentation on central bank digital currencies." I was wondering, first of all, when you might be expecting to share some of these public updates? What's the timing on that?

Jerome Powell:

So we did go out for comment in general on a CBDC a year or so ago. And I do expect we'll go out... I can't give you a date, but we'll certainly go out and engage. We engage with the public on an ongoing basis. We're also doing research on policy and also on technology. That's what we're up to.

Mr. Lynch:

I'm aware of the Boston Fed has a partnership there, the Hamilton project over there with the folks from MIT Media Lab. They're doing a great job. But it says here that the discussions would include technical experimentation. I was just wondering at what level are you are talking about making decisions on architecture for a retail CBDC?

Jerome Powell:

We're not at the stage of making any real decisions. What we're doing is experimenting. In kind of early stage experimentation, how would this work? Does it work? What's the best technology, what's the most efficient? We're really at an early stage, but we're making progress on technological issues. The policy issues are equally important though. We haven't decided that this is something that the financial system and the country want or need. So that's going to be very important.

Mr. Lynch:

Right. Well, I think I speak for the chairman as well. Would love to have more dialogue with the Fed on that and maybe bring in the folks from MIT as well and just make sure that Congress and this committee is as up to date as others.

Let me switch over to FedNow. There are some champions of digital currency and stable coins in particular that continue to cite the need for faster payments systems. However, as was earlier mentioned, the FedNow is a service that the Fed is working on to finalize that will allow for instant payments between bank accounts. And the Fed has a target release date for FedNow between May and July, which is right around the corner. Do you see any reason why cryptocurrencies would provide faster payments than the FedNow system? And with the transparency of FedNow, would it offer distinct advantages over some of these stable coins that are touting faster payments?

Jerome Powell:

So what FedNow will do is it will enable all the banks, any bank in the United States, not just the big ones, to offer instantly available funds and real time payments to their customers. That's what it will do. So that's a great thing. A CBDC, I think you're asking whether a CBDC would serve some of that, but a CBDC is going to be years in the evaluation. And I think we can get this into the hands of the public very quickly. And I think-

Mr. Lynch:

State banks that were authorized to issue their own currency, but when the greenback came out, all of those various currencies went to zero because... Well trillions right now. And I'm just thinking if we had those advantages built into a CBDC, wouldn't those alternatives go to zero if they did not have the transparency and the full faith and credit that we enjoy?

Jerome Powell:

So certainly unbacked cryptocurrencies that don't have any intrinsic value, but nonetheless trade for a positive number. Those who have never understood the valuation of those. Stable coins, actually many of them are really, they're drawing on the credibility of the dollar. They're dollar denominated mainly in the dollar-based reserves, although we don't know what's in the reserves because there's no regulation.

Mr. McHenry:

Gentleman's time expired. The gentleman from Missouri, Mr. Luetkemeyer, is recognized for five minutes, the chair of the National Security Subcommittee.

Mr. Luetkemeyer:

Thank you Mr. Chairman and thank you Chairman Powell for being here this morning. The reserve currency status of the dollar to U.S. has enormous financial and national security benefits. In the wake of Russia's unprovoked invasion of Ukraine, the Fed took action to prevent the Kremlin from accessing more than 300 billion in reserves, roughly half of Russia's reserves. However, this led to an accelerated effort by countries like China to de-dollarize their official foreign exchange reserves. Just last week there was an article in the Wall Street Journal titled Russia Turns to the Yuan in an Effort to Ditch the Dollar. Not only that, but China's President Xi Jinping, pushed for the settlement of energy trades in the Chinese Yuan at a summit with Arab leaders in December. The question is, are you concerned about these actions by Russia and China to push to establish different reserves and conduct transactions in non-U.S. dollars?

Jerome Powell:

So the U.S. dollar is the widely accepted and really the only serious candidate for the world's principle reserve currency. And that's because of our democratic institutions, our liquid markets, the rule of law and all those kinds of things. And also the fact that the dollar has held its value over time. So other countries who are competing on other playing fields, they want to establish different currencies, but really the dollar is the one that's going to be used more broadly in international commerce because we have those aspects and other countries don't.

Mr. Luetkemeyer:

Well, that's true to now, but my question is, are you concerned about the actions of these countries? Because if they see themselves being challenged or concerned? For instance, if China would invade Taiwan-

PART 2 OF 6 ENDS [01:00:04]

Mr. Luetkemeyer:

Concerned. For instance, if China would invade Taiwan as Russia invaded Ukraine, there were some sanctions put on, and I don't disagree with the sanctions. The last time you were here though, Mr. Chairman, I asked the question cause it's an instructive moment for us from the standpoint that, knowing that we put sanctions on Russia, all their different counts as well as oligarchs from that country, are we thinking about doing the same thing to China when they invite invade Taiwan? And your answer at that point was no. We passed a bill out of this committee last week to ask the administration basically to start thinking about that in those terms? What kind of situations can you come up with? Are you talking to allies, begin to talk to them, to start putting together a list of how you would go about sanctioning the different individuals, the different accounts, things like that. So have you started thinking about that at all yet?

Jerome Powell:

Well, let me say. The business of sanctions is entirely in the hands of the elected government and the treasury department. We are an implementer as it relates to banks. That's it. We don't make those decisions.

Mr. Luetkemeyer:

Yeah but we're going to take your advice on different aspects of this, Mr.-

Jerome Powell:

Sorry?

Mr. Luetkemeyer:

We're going to take your advice on different aspects of this.

Jerome Powell:

Well, I mean honestly when the sanctions were being put in place, treasury was doing it, we weren't doing it.

Mr. Luetkemeyer:

Okay.

Jerome Powell:

Yeah. I mean that's the way it works.

Mr. Luetkemeyer:

Next question. There was an article again in one of the political newspapers yesterday I guess it was. And it talked about the problem that we have here with the fed's balance sheet. It says it now appears similar to a hedge fund whose long-term assets are financed by short-term borrowing. And the bottom line is that it's going to cost money. The Fed now has a negative income as a result of having to do this. And so it says here that the Fed will simply borrow the money to pay the bills. Is this true? That we're having the Fed's losing money right now as a result of the way you've got these debt, the borrowings that you've purchased structured?

Jerome Powell:

The place I would start is that the Fed has, we always turn over all of our earnings in every year, we turn them over an ongoing basis, and we've turned over something like $1.2 trillion in earnings just in the last decade or so. So we always know that when we raise interest rates, you're going to lose money. Of course-

Mr. Luetkemeyer:

But you agree with the point that we have a negative income right now, and this makes my point to my next question or my concern is, the CFPB gets their money to be able... The CFPB gets their money to run their agency from the Fed.

Jerome Powell:

That's right.

Mr. Luetkemeyer:

So basically there's no money for the Fed to pay the CFPB's bills if this is the case, unless you continue to borrow, which is basically what's going to happen now. Is you're going to have to borrow money to be able to pay the CFPB's bills. Is that not correct?

Jerome Powell:

No, we don't borrow money. We issue, basically, yes. We can, we don't shut down the Fed when we have negative income.

Mr. Luetkemeyer:

Okay.

Jerome Powell:

We can pay our bills and we can-

Mr. Luetkemeyer:

So my question, my follow up question then is, do you have any accountability or assessing of the CFPB's spending of these dollars at all?

Jerome Powell:

No, we don't.

Mr. Luetkemeyer:

So they just get a blank check. You just told me they just got a blank check. They send you a bill, you send them a check. There's no accountability for them.

Jerome Powell:

No, I think there are limits built into the law, which I don't have in the front of my head.

Mr. Luetkemeyer:

I have yet to see a limit Mr. Chairman. I'd love to see what the limits are because I don't think that they've ever agreed that they have that. But I see my time is up Mr. Chairman, you'll back.

Mr. McHenry:

Gentleman's time expired. We'll now go to Mr. Foster, the ranking member of the financial institution's monetary policy subcommittee.

Mr. Foster:

Thank you. And just a quick comment, I think it's a mistake to imagine that you can completely hide from the macroeconomic effects of technology and your scenario planning. We just talk briefly about healthcare costs. Obesity, half of our healthcare costs, and there are treatments in these GLP one receptor agonists that look like they're just a home run against obesity. And so these will be near term impacts which will have macroeconomic effects. So just a comment, I hope you have a certain fraction of futurists in the room when you're talking about your scenario planning, because a lot of that future is like now.

Okay, back to economics. So we have this historically low unemployment rate, 3.4%. And historically this would be considered to drive runaway inflation. Your predecessor, Alan Greenspan, repeatedly referred to dangerously low levels of unemployment, and yet we see inflation as coming down. So what is going on here? How can we have these historically low levels of unemployment without having inflation take off? Is it impossible that we simply have less frictional unemployment in our system, due perhaps to the fact that people get their new jobs online and have a job lined up before they quit?

Jerome Powell:

So inflation is coming down, but it's very high, is the thing. And some part, I've never said all of it or most of it, but some part of the high inflation that we're experiencing is very likely related to an extremely tight labor market. Wages affect prices and prices affect wages, so I do think that's part of it. More to your point though, there was a time when there was a tight relationship between inflation and unemployment. In other words, the Phillips curve was steep. And that went away over the period of the great moderation. And really in our thinking, that's because people came to expect 2% inflation, and we had 2% inflation and then people just stopped focusing on inflation and it stayed very low. So there was really no relationship or very, very tiny relationship. We could have very weak economic growth, or very strong economic growth, and we wouldn't have inflation respond very much. That was before the pandemic though.

Mr. Foster:

Okay. Well I hope don't some of the lessons there, it's one of my worries. That the there've been a number of exogenous shocks to the system here, and it'll take a while to go through them. And if, you want to be careful there.

Now in a related issue, when you say refer to the totality of factors, you're looking at a mixture of leading and lagging indicators when you look in this totality of factors. And my question if perhaps you might be paying too much attention to the lagging indicators and not enough to the leading indicators.

The example that's referenced in your markson is in more detail in the report, about the difference between using current rental payments versus the amount that you pay for a new rental contract in difference in how much they lag. Had you paid more attention, for example to the leading indicators like current rental contracts, then you probably would've picked up inflation earlier. You would've been, not gotten so far behind the curve on that.

And secondly, there are policy implications going forward. If you look at current rental prices for new contracts, we're much farther along in fixing inflation, and that you can take your foot off the brake. And so what's your thinking on that, and whether you may perhaps be systematically not paying enough attention to leading indicators versus lagging ones?

Jerome Powell:

So we've had our eyes on the whole housing inflation thing from the very beginning. And right now what I would say is that every forecaster is baking in lower rent increases. That's a big part of why people think inflation's going to come down in 2023. I think the thing with transitory was more, more had to do with goods. And it had to do with the thought that these supply side disruptions would go away much quicker than they would, that the labor market disruptions would go away much quicker than they did. And in the hindsight it just took much longer for those disturbances to go away.

Mr. Foster:

And so with hindsight, and if you allow yourself to Monday morning quarterback yourself, you probably would've gone up to 4% earlier, and not had such a big problem with inflation. And so are there structural things you can contemplate or even after action reviews to say, what would've happened if we would have paid more attention to the leading indicators? Or improved the band, in engineering term, improve the bandwidth of your feedback regulator. That this is something if you want to get the best result, you need a high bandwidth feedback in the system even when there's averaging on the back end.

Jerome Powell:

So this is something we only think about during waking and sleeping hours, as you can imagine. It's really hard to know what the lessons are. Again, we really thought things would... Nobody had seen the supply chains collapse. No one had seen labor force participation plummet. We didn't know, or unemployment go to 14% and higher than that really. We didn't know how long it would take to go away. And if we ever see this pitch again, we'll know how to swing at it. But it's been-

Mr. McHenry:

We'll now recognize that-

Jerome Powell:

... Bunch of firsts. Sorry.

Mr. McHenry:

Gentleman's time has expired. The gentleman's time has expired. We'll now go to the gentlewoman from Missouri, the chair of the capital market subcommittee, Ms. Wagner for five minutes.

Ann Wagner:

Hi. Thank you Chairman McHenry and Chair Powell. Welcome. Thank you for your service and for being here today. Yesterday I was pleased to hear you discuss how inflation is severely hurting the working people in America. In your testimony you also state that strong wage growth is good for workers, but only if it is not eroded by inflation. And that is key. Inflation is a hidden tax on every American. If the Federal Reserve were to shirk its mandates to stabilize prices, leaving inflation alarmingly high, what would it cost America's hardworking families in Missouri's second congressional district and beyond?

Jerome Powell:

Well I think the costs of failure to restore price stability would be extremely high. And while there will be costs to success, the cost of failure will be much higher. You'd be looking at an extended period where people learn to expect and live with high and volatile inflation and it's very, very hard to have rising real incomes during such a period. So it'd be a bad thing for the country.

Ann Wagner:

Can you reassure the committee that the Fed remains committed to bringing prices down for our constituents?

Jerome Powell:

Yes, I do.

Ann Wagner:

Thank you.

Jerome Powell:

I hereby assure you.

Ann Wagner:

As, in changing topics here a bit. As China's economy reopens and about 18% of the world's population resumes it's consumption of oil and other key goods, what sort of inflationary impact will we see here in the United States, sir?

Jerome Powell:

So a stronger, faster reopening of China, which it looks like we may be seeing, it does have the potential to put upward pressure on commodity prices, but it also would mean a faster sort of unraveling of the problems in supply chain. So those would be offsetting effects. I think sitting here today, we don't expect the net effect to be big for the United States. It might be bigger for other parts of the world, but we think it ought to be moderate overall.

Ann Wagner:

Well China is one of the world's top oil importers. And do you expect any inflationary effects on global energy markets as China's oil consumption returns to their previous levels?

Jerome Powell:

So I think oil prices could be affected, and I think that's a big concern in Europe, for example. We have our own domestic oil, and we've got a lot of natural gas as well.

Ann Wagner:

We sure do. I wish we were actually harvesting more of that liquid natural gas. Chair Powell you, Vice Chair Barr and many others have recently identified that the banking system is well capitalized and strong. Bank capitalization remained robust during the shock of the pandemic and related shutdowns of economic activity. Capitalization of large financial institutions weathered severe stress testing mandated by the Fed. And despite all of that, as also previously mentioned by Chairman McHenry. Vice chair Barr insists on conducting a review of capital rules.

I'm concerned that this review is being conducted in a silo, and that the findings will not be made fully available to the public. Taking such an approach in the context of this holistic capital requirement review would make it impossible to conduct a transparent rulemaking process, denying the public information necessary to consider and to comment.

I think this is just simply not appropriate in this situation, and I'm concerned by the lack of clarity, I think is the best word perhaps at this point, by the vice chair. A couple questions. You've served on the Fed board for over 10 years since the financial crisis regulatory framework has been put in place. And over that period have you seen any real world evidence that America's banks are under capitalized?

Jerome Powell:

So American banks are strongly capitalized, and I believe Vice Chair Barr has said that as well. But the point is he hasn't, there haven't been any real proposals to evaluate yet. And when there are, that will be done in a highly transparent matter.

Ann Wagner:

I hope so. I'm glad to hear you say in a highly transparent matter. Do you agree that excessively high capital levels constrain banks' lending capacity with spillover effects on jobs and living standards for Americans?

Jerome Powell:

So I think it's always a balance, right? High, more capital means more safety and soundness and more ability to withstand terribly stressful periods. But it also, it's more expensive, equity capital is more expensive. US banks have competed incredibly well around the world with-

Ann Wagner:

Yes they have. Internationally.

Jerome Powell:

... high levels of capital. But, so that's a trade off that you're always going to be making when you think about capital.

Ann Wagner:

My time has expired. Yes thank you.

Mr. McHenry:

We'll now recognize the gentlewoman from Ohio, the ranking member of the national security subcommittee, Mrs. Beatty. Mrs. Beatty for five minutes.

Joyce Beatty:

Thank you Mr. Chair, and I like that title. To Chairman Powell, thank you for coming and being such a good colleague and friend. I have a couple questions I'm going to try to get through quickly. Chair Powell, in a press conference last month, you stated, "There is a lot of spending coming into the construction pipeline, both private and public. And so that's going to support economic activity." How do you think the strong pipeline of funding from what the Democrats put together in passing the Inflation Reduction Act, the Infrastructure Investment Jobs Act and the CHIPS Science Act will do to have economic activity this year and moving forward?

Jerome Powell:

So I guess I was making the point that there are a lot of sources of demand that we can rely on, even though demand has been relatively, increasing at a relatively moderate modest rate. Part of it is-

Joyce Beatty:

Will this help in that demand?

Jerome Powell:

Yes. I mean there is state and local governments I mentioned, are about-

Joyce Beatty:

So would you say this is a great thing that we've done, coming from the left over here-

Jerome Powell:

Not for me to not judge the merits of what gets done, but I'm just saying-

Joyce Beatty:

But it will contribute-

Jerome Powell:

... There that it will support. Economic-

Joyce Beatty:

And support it.

Jerome Powell:

Yeah.

Joyce Beatty:

So I'm going to assume from that, that that's a positive. Let me go to the second question. Chairman Powell, the Federal open markets committee is projecting that unemployment will increase to 4.6% by the end of the year. And those costs, as we know, won't be bore equally. If we look at the ratio from the last time unemployment was 4.6% and compare it to our numbers now, it would mean that white unemployment would go up to about 0.9%, but black unemployment would go up by 2.3%. Does that sound somewhat accurate to you?

Jerome Powell:

Yes.

Joyce Beatty:

Can you address the disparity impact with that? And before you answer, let me go to the book and thank you that was put at our places together. You made, in this book with your signature on it it is stated. However, while disparities in unemployment have largely returned to pre-pandemic levels, there still remained significant disparities in absolute levels of employment across groups like African-Americans and Hispanics. So can you address that?

Jerome Powell:

I can. So right now, to your point, actually African-American unemployment is I think 5.4%, which is just about as low as it's been since we started tracking it in 1972.

Joyce Beatty:

But differential from majority by-

Jerome Powell:

Well I was going to say the diff... So that's 5.4, whereas the overall is 3.4, and that includes black. So that means for whites, whites is well lower than that. What happens is, so there's a persistent gap between black and white unemployment. And also when unemployment goes up quickly in a recession, it goes up much faster for African Americans. When the economy grows again, it comes down faster. So that's just that that's somehow embedded in our economy. We don't really have, the best thing we can do is achieve stable prices so that we can have long, long expansions. And what happens in those long expansions is that the labor market gets tight, sustainably tight, and we have historic lows in unemployment, including for African Americans.

Joyce Beatty:

Let me say thank you. And let me also again thank you as you know, in the 117th that was the chair of the DNI committee, and let the record state that you always pushed for making sure that you understood and respected that. And in that this is very minor and certainly personal to me in this report. Maybe those who helped you author it, I would like to see the areas that talks about unemployment not under a title of special topics, but something that draws a little more attention to it as some of the others. Just very minor.

Last question I have. Can you tell me if the Feds is committed to working with the other agencies like the FDIC and the OCC to finalize a rule soon on CRA? Certainly that's something of great interest to many of my colleagues. So can you give us any updates on it or how the process is going or what we can expect?

Jerome Powell:

Yes. So with Governor Brainard's departure for the White House, I've asked Vice Chair Barr to take the lead in moving it forward. There's this, I would characterize it that there's essentially agreement between the three banking agencies on the changes to be made. That's all being written up and vetted, and at a certain point it, members of the board of governor will be briefed on it, we'll vote on it.

Joyce Beatty:

Is there anything we can do to help with that?

Jerome Powell:

No, I think we're hard at work on it and we're, it's going to take some months, but I think we're nearing, we can see the airport, and we'll be landing in a few.

Joyce Beatty:

Gentlewoman's time has expired. The gentleman from Kentucky, the chair of the financial institutions of monetary policy subcommittee, Mr. Barr is recognized for five minutes.

Mr. Barr:

Thank you Chairman McHenry. And Chairman Powell, economic data are mixed, as you know. On the one hand, low unemployment, robust hiring, strong consumer spending and persistent core inflation and a CPI that's still more than three times your 2% target suggests more aggressive tightening is warranted.

On the other hand, because the Fed misjudged the inflationary impact of Democrats' overspending, kept interest rates too low for far too long, and failed to end quantitative easing soon enough, the Fed has been forced to raise the Fed funds rate 450 basis points in just 11 months, and reduce the M2 money supply at the fastest rate since the 1930s. As a result, wage gains have slowed, credit card debt is at an all-time high, the housing market is in a slump, and the yield curve is inverted. I agree with you that the historical record cautions strongly against prematurely loosening policy, but what would you say to those who caution about the lag effects of monetary policy? The precipitous decline in liquidity? Will the economy have to suffer a recession in order to bring inflation down to 2%?

Jerome Powell:

We are very well aware of the lags with which monetary policy affects economic activity and inflation. Those are long and variable, and I would stress highly uncertain. There is nearly no agreement on exactly how long they are. But we know that slowing down the pace of rate hikes this year is a way for us to see more of those effects as they come in.

Mr. Barr:

December, most Fed officials expected to lift rates this year to between 5 and 5.5%. Is that still your estimated terminal rate, or does the data suggest that the terminal rate could be higher than 5.5%?

Jerome Powell:

My colleagues and I will write down new forecasts and release into the public on March 22. But as I mentioned in my testimony, the data we've seen so far this year suggests that the ultimate level of rates will need to be higher. But we still have some more data to come in between now and the meeting. But as of today, it suggests a higher level than that.

Mr. Barr:

Let's go to Vice Chairman Barr's review of the Capital Framework. A lot of questions for you on that. When governor's Brainard, Quarles, Clarida, Bowman and Waller made up the board under your leadership, major changes in policy were addressed following board consensus, and not when there was significant dissent. Will you commit to not implementing a new capital framework following this holistic review or the Basel endgame if there is considerable dissent from the board?

Jerome Powell:

I can't really commit to that. We are a consensus kind of an organization and that's what we'll work toward, but ultimately we-

Mr. Barr:

Would that be a break from your prior practices? You're a consensus builder, Mr. Chairman. You pride yourself in that, and we credit you for being a consensus oriented chairman. Will you commit to continuing that practice and not allow major changes to the capital bank capital, regulatory framework to be made by one person?

Jerome Powell:

Well, they can't be made by any one person, but I do commit to that, and I commit to doing everything I possibly can to bring people together in consensus to have something that can be broadly supported.

Mr. Barr:

Thank you. Earlier this year you said, and I quote, "We are not and will not be a climate policy maker." However, in the feds draft principles on climate related financial risks, one proposed principle suggested that boards of directors or of a financial institution should consider making changes to its compensation policies to align with values in the context of supposed climate risks. It appears then that the Federal Reserve through regulation wants to begin implementing climate policies. So which is it? There seems to be a disconnect between your statements publicly and the rules that the board is putting forward for comment.

Jerome Powell:

Well, I feel strongly that climate change is an important issue that needs to be addressed by elected people. It's about, it's just not something that we've been charged with by Congress clearly. So we do have a narrow role, and that role will be around making sure that banks understand and can manage the risks that they're running. And that's going to be it. And as I said before, we don't want to drift into becoming a policymaker, and we'll have to guard that border very carefully.

Mr. Barr:

Regarding the Fed's climate scenario analysis pilot program. Did the board vote to approve the creation of that pilot program?

Jerome Powell:

I have to check, but I don't think so. I think it was already authorized.

Mr. Barr:

And this is a concern that I have. I'm concerned that one governor acting unilaterally to implement major policy changes without board consensus is a problem. And so I would urge you and your colleagues on the board to continue a consensus oriented approach. And I yield.

Mr. McHenry:

Gentleman's time has expired. We'll now go to the ranking member of the House Intelligence Committee, Mr. Himes of Connecticut for five minutes.

Jim Himes:

Thank you Mr. Chairman, and welcome Chairman Powell. Thank you for your careful conduct of monetary policy, independent of the many political desires that circulate in this building. Independent monetary policy is a bedrock of a solid economy. I want to reflect for a moment on another bedrock of the American economy, the full faith and credit of the United States government, which is now being put at risk by the Republican majority.

My Republican friends know how very a dangerous a game they are playing. They know that salary payments to our soldiers are at risk. They know that their irresponsibility will raise mortgage rates for new home buyers. But they say this is the only time we focus on spending in the debt, which of course is baloney. It's a pernicious form of baloney. The time to focus on the deficit is when you are voting for the spending and the tax cuts that create the deficit. When you're voting for the Trump tax cuts, which the CBO said would add $2 trillion to the national debt. That's the moment to consider whether you want to do that, not when the good name of the United States is hanging in the balance.

This stuff gets a little complicated, but the American people really need to understand what's happening here. The Congress sits down to a huge 10 course meal of tax cuts and spending and more defense spending and expansion of this program and stimulus, all of which we vote for collectively. First course, second course, white wine, red wine, four servings of dessert. And then the bill comes and my Republicans say, whoa, whoa, whoa. Wait a minute, wait a minute. Hold on. Look at this bill. This is irresponsible. Do we really want to pay this bill? That's not the moment for the consideration. The moment is when you're ordering four helpings of dessert. That's when we should be talking about it and taking responsibility for the choices that we make, without putting the full faith and credit in the United States at risk.

Now here's where the hypocrisy comes in. My Republican friends like to point the finger at this side of the aisle and blame us. Chairman, as you know, fully one quarter, 25% of today's United States debt was accrued in the four years of the Trump administration. This country's been around for 246 years and fully one quarter of the United States debt was accrued under President Trump. By the way, speaking of hypocrisy, in the four years of President Trump, the debt ceiling was raised or suspended three times. I didn't even notice. But now of course we have a different president and so the calculus is different.

Now Mr. Chairman, I don't think I'm going to persuade the majority to act responsibly here. I actually think the markets will persuade them. And you'll recall because we were watching this closely. September 29th, 2008, the Republican House of Representatives voted down the Great Recession rescue package. As the vote was going down in the House of Representatives, the equity market dropped 7%, $1.2 trillion lost in people's retirement accounts. Now Congress sobered up, a couple days later we passed the Rescue Act.

So Mr. Chairman, there is a question here and the question is this. You and I both watch the markets pretty closely. Treasury tells us that on June 5th, that's just three months away. On June 5th, the treasury runs out of money. So my question to you, Mr. Chairman, I know I'm asking you to be a little speculative here, but what should we watch for? What markets signals could indicate that the markets are getting fed up with the manifest irresponsibility around this? Give us some things that we should be looking for.

Jerome Powell:

And I'd love to, but I'm going to limit myself to what other Fed chairs have said about the debt ceiling, which is that it does need to be raised by Congress. In the end, there are no other rabbits in hats as I mentioned, and also that no one should assume that we the Fed, this is the Fed's business, is to protect the economy from various events. And I wouldn't assume, no one should assume that we have the tools to protect the highly uncertain effects of that kind of an event.

Jim Himes:

So monetary policy is obviously very concerned with interest rates. If global capital markets begin to decide that we're really serious about hurting ourselves this time, is it possible that we could see interest rates rise more because borrowers of United States debt decide that we're actually a little risky? Is that possible?

Jerome Powell:

I think that and many other things are possible. The thing is, we've never crossed that line. And if we cross that line, we're going to find out. And I think it's highly uncertain.

Jim Himes:

Okay, so that's possible. And you know I don't like pressing you on these things, but you said this and many other things are possible. You want to elaborate on what might be in the category of many other things?

Jerome Powell:

I'd rather not, actually.

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Jim Himes:

And what might be in the category of "many other things"?

Jerome Powell:

Rather not actually.

Jim Himes:

Okay. I figured. All right. Thank you Mr. Powell. Again, I really thank you for your really responsible conduct of monetary policy and there's a reason that you are insulated from our political desires and I very much appreciate that. And yield back.

Mr. McHenry:

Gentleman yields back. Will now recognize the chair of the Small Business Committee, Mr. Roger Williams of Texas.

Roger Williams:

Thank you Mr. Chairman. And Chairman, it's good to see you. Always good to have you here. In past congressional testimonies, you've repeatedly stated that you support protecting the state-based system of insurance regulation, which is the most effective and competitive in the world. My home state of Texas is the world's seventh-largest insurance market proving the success of this system.

Now at the International Association for Insurance Supervisors Conference in November, there is the opportunity to have the US state-based aggregation method become formally recognized as comparable or equivalent to the insurance capital standard. We should not be following the European model that has increased regulations and less competition and we should prioritize a model that encourages deregulation, competition and less government involvement in pricing.

So my question is, Chairman, can you highlight the benefits of the US state-based aggregation method compared to the European model regarding market resiliency and systematic risk? And can you confirm that you will push for aggregation method to be deemed equivalent by the IAIS?

Jerome Powell:

I can say this, I do think that our insurance regulatory system has proved itself appropriate and adequate and gotten the job done for a long time and we don't need to be copying other countries' or other regions' insurance regulatory system.

I'm a little rusty on the details of the capital requirements, but that sounds right.

Roger Williams:

But bottom line is our side works, the other doesn't. We need to stay where we are.

Jerome Powell:

Our side works.

Roger Williams:

Yeah, thank you. Also, in the past you stated that banks were well-capitalized. We've talked about that today, but now there have been increased conversations about raising capital requirements. Numerous economic studies have found that raising capital requirements for banks will increase borrowing costs for their consumer and commercial customers.

And I'm somebody that's owed 50 years, I've never had a day I wasn't out of debt. So I'm concerned about this. And implementing additional regulatory capital requirements will slow economic growth and limit financial institutions lending abilities. So do you believe that raising capital requirements would raise the cost of borrowing and add cost to our economy in Main Street America?

Jerome Powell:

It depends on which banks experience higher capital requirements and there isn't any proposal to evaluate right now of course, but it's always a trade-off. Higher capital's good in a sense because it keeps banks able to lend during bad times. That's really a good thing. Too much capital though probably limits credit availability. So we're trying to strike that balance always.

Roger Williams:

And this has been touched on a little today, but let me come from a different angle on it. But the reserve was created to act as a nonpartisan entity that remained separate from party politics. You talked about that. And unfortunately throughout recent years the Fed has gotten caught up in politically charged issues like economic inequality, gender and race discrimination and climate change. Recently the Federal Reserve Board proposed guidance on managing climate-related risk for large banks, further proving that the Fed is giving into some political pressure and operating outside its intended purpose and responsibilities.

So our country's financial leaders, in my mind, should be focusing on addressing runaway inflation instead of worrying what about the financial institutions are doing to moderate climate change. And we touched on this a little bit, but how can the Fed ensure that they're not placing undue regulations and guidance on banks by forcing involvement in partisan green politics? And how's the Federal Reserve ensuring they remain separate from political influence?

Jerome Powell:

So I think it's absolutely critical that we do. I mean our independence is partly founded on the idea that we will stay out of stuff that you have not assigned us to do. And if we're going to wander all over and take on the hot issue of the day, our case for our independence is dramatically weakened.

On climate change, you mentioned the guidance and then there are also the stress scenarios and those are the two things that we've done. We tried to keep those tightly focused on the bank's understanding and being able to manage the risks that they'll run over the longer time periods on climate and not slide into a broader sort of policy-making role on climate change.

And I accept that could be a slippery slope and a moving border. And I just want to say, and I think my colleagues feel the same way on the board, that we're going to guard that border carefully and we're going to stick to our role and not try to be policy makers the way in many other countries the central bank is out there in the lead with the support of the public doing climate policy. But that's not where we are in the United States and we're not going to pretend that it is.

Roger Williams:

We've got some time left and I'll yield back, but I just want to say as an auto dealer, I'm looking forward to that first day of that rate cut.

Mr. McHenry:

Done with that.

Roger Williams:

Thank you for being here, we appreciate it.

Jerome Powell:

Thanks.

Mr. McHenry:

Gentleman's time has expired. We'll now go to the gentleman from California, Mr. Vargas, for five minutes.

Juan Vargas:

Thank you very much, Mr. Chairman, and again, thank you for holding this hearing. Chairman Powell, a pleasure to see you again. I've said it before and I'll say it again, it's always great to see you because I always think of the old Republicans, the ones who are very noble, did the right thing, didn't play chicken with the economy, very forthright. So anyway, I appreciate you being here very much. Like some of my colleagues on the other side, I'd say the same thing about some of them and I appreciate you.

So we heard today that the inflation is Biden's fault. So what is the inflation rate in the European Union today?

Jerome Powell:

It's high.

Juan Vargas:

It's high. Is it 10% possibly?

Jerome Powell:

I think if you're talking about headline, I don't have this figure in my head, but it's very, very high from a headline standpoint. And they've had core inflation move up too.

Juan Vargas:

Yeah. So are they following Biden's then policies? Is that what caused the inflation? Because it seems to be Biden's fault.

Jerome Powell:

So I think inflation is everywhere and it must have to do with a common factor. And that common factor has to be the reopening of the economy after and the things that were done on COVID. On the other hand, each country has a little bit different case and I think you have to be careful. We had much more of a demand-oriented issue than they did. Now their inflation looks a lot like ours did a year ago.

Juan Vargas:

Right? Yeah, I just had to bring it up because, again, Mr. Sherman brought it up. But it's interesting, every time I hear inflation is caused by Biden, I wonder why is it all over the world? I mean it's not because of the pandemic of course, or Europe's at war. I mean that wouldn't cause it. Of course it'd have to be Biden's policies. That's ridiculous. And I think the voters saw through it last time.

So I haven't been here 15 years as my good friend Mr. Foster. I've only been here 11, but when I first got here, the boogeyman, and I heard all from my friends on the other side, was Dodd-Frank. Dodd-Frank was going to be the end of banking. And in fact, all my colleagues would almost scream how horrible this was. And then we had got the bankers up here during a real stress test, which was the pandemic. And we asked them, has it been helpful to have Dodd-Frank? Do you know what they said? Do you know what they said?

Jerome Powell:

I don't.

Juan Vargas:

Oh, they said it was helpful. In fact, it kept the banks capitalized. It was fascinating. Now, to be fair to them, they did complain about some of the smaller issues, but not Dodd-Frank in general, the bill.

Then it seemed that CFPB that became the next boogeyman. But they're starting to seem to fade on that. And I think the reason for that is the CFPB has actually helped so many people that now a lot of their own constituents now are getting help by the CFPB. So all of a sudden there's not quite the energy. So now they're attacking ESG. And they're saying that you and everybody else is somehow conspiring to make sure they don't buy their oil or their coal. Are you conspiring to do that? Are you conspiring?

Jerome Powell:

No, I don't believe we're conspiring.

Juan Vargas:

No. Now I heard it was supposed climate risk. Is there a risk in the climate change?

Jerome Powell:

Yes.

Juan Vargas:

There is. Could it affect the bank?

Jerome Powell:

Certainly in the longer run. Yes. Yeah.

Juan Vargas:

Of course it can. Do you think insurance companies take this into account?

Jerome Powell:

Yes, actually I believe they do.

Juan Vargas:

They absolutely do.

Jerome Powell:

Who write long-duration liabilities. They certainly do.

Juan Vargas:

Of course they do. I mean they're very concerned with it. Weather is a big deal. I was the vice president of Liberty Mutual in their corporate legal department and I can tell you, weather and the changing of the weather, we used to have what we call catastrophes. And these catastrophes happen every 25, 50, 100 years. Now those 25, 50 and 100-year events happen every five years, every two years. So of course it is. I mean it's ridiculous not to take a look at these ESG factors. We have to.

And, again, I'm glad that you guys are taking a look at it because it's real. I'm glad that the president's taking a look at it and it's sad that my colleagues on the other side just want to stick their head in the sand and say, "No, climate change is supposed climate change." No, the reality is it's real climate change and it's costing billions and billions of dollars. And you don't believe it, go ask all those poor people in Florida that had those huge hurricanes come through and wipe them out.

So again, I appreciate very much the work that you've done. The only thing I hope is, as you said, if we ever see this pitch again, we'll know how to swing at it. And I hope we don't get the pitch of defaulting because I'm not sure we'll know how to swing at that one. So thank you again, Mr. Chairman, thank you for being here.

Jerome Powell:

Thank you.

Juan Vargas:

I yield back.

Mr. McHenry:

Gentleman yields back. Gentleman's time is expired. We now go to the chair of the Oversight Subcommittee, gentleman from Michigan, Mr. Huizenga for five minutes.

Bill Huizenga:

Thank you Mr. Chairman. I'm going to move quickly. And good to see you again, Chair. I caught a little bit of the Senate hearings yesterday and you had a lot of pressure to keep the sugar high going. And frankly, if the Fed and many of our colleagues had listened to what many of us were saying, we should have been weaned off that artificially low, cheap money that kept the party going and frankly, we wouldn't be in this position. To reference Chair Greenspan's punch bowl analogy, not only did no one have the courage to remove the punch bowl, you had people cheering on the pouring of another bottle of 151 rum into the punch bowl. And here you got folks wanting to do the exact same thing. Let's spend more.

And now here we are. You have an impossible decision to slow the economy or let everyone get crushed by inflation. And we know tightening means a slower economy. Slower economy means fewer jobs. Fewer jobs hit those who can least afford to lose a job. And so in short, the lower rungs of the economic ladder will suffer more than the rest of the latter. So that's the state of play where we're at.

I have to hit a couple of quick issues here. I wanted to start off by discussing climate, especially given the Fed's announcement in January that it was going to conduct a pilot climate scenario analysis exercise. The Fed, along with the OCC and FDIC, have each issued proposed climate risk management principles for banks that you are attempting to finalize those by the end of the year and the requirements don't stop at the border. The UK and the EU central banks are moving to require significant ESG disclosure regimes as well.

I know the Fed is taking a look at commodities capital charges in the holistic review, but even though the Fed isn't forcing banks to encompass climate analysis in their stress tests, there are many initiatives at the Fed that are going to make it more costly for banks to finance traditional fossil fuel companies.

So I want to ask you a very specific question. Will you commit that you will withhold support for a new capital rule that increases capital charges on bank activities in traditional energy companies?

Jerome Powell:

I can't sit here and promise what I will and will not vote for because I don't know what's going to be in the proposal, but that's not the kind of thing I think we're looking at.

Bill Huizenga:

I'm sorry, it's not the kind of thing?

Jerome Powell:

So this isn't about... This is about overall capital levels more than anything else, I think, rather than the specific thing you're talking about.

Bill Huizenga:

Okay. We're going to follow up on that because we need to have a real time conversation about what that is going on there. I want to quickly switch topics and go in a different direction for this next question.

I want to ask you about two opinions issued by your legal staff in November of 2019, in December of 2020, to the asset managers Vanguard and BlackRock. Mr. Chairman McHenry, I'd like to submit the two letters for the record.

Mr. McHenry:

Without objection.

Bill Huizenga:

Thank you. These opinions appear to outline the parameters of how both Vanguard and BlackRock can operate without being deemed a bank holding company. In addition to the legal restrictions outlined by the bank holding company, these opinions listed out here in quite detail list out commitments that the companies would need to take to avoid being viewed as having "control". These opinions also appear to provide assurances that the Federal Reserve Board staff would not recommend that the board find the asset managers to be bank holding companies. Further, it is unclear whether the board will take any steps beyond a periodic self-certification by the asset managers to monitor compliance with the condition that they "not take any action to control a banking organization". As some asset managers play a larger role and clearly strive to influence policy in companies across the free market, we need to remain vigilant.

So Chair Powell, is the board taking any steps to assess or monitor whether Vanguard and BlackRock are complying with commitments made in November of 2019 and December of 2020 respectively?

Jerome Powell:

I would have to check and get back to you on that.

Bill Huizenga:

Okay.

Jerome Powell:

I'm familiar with these.

Bill Huizenga:

I appreciate that. But that says to me that doesn't sound like there's an assessment that's taking place, ongoing, or scrutiny of that. Is somebody reviewing that or is someone in charge of reviewing that?

Jerome Powell:

Honestly, that's a very specific narrow question. I'm quite familiar with the issue.

Bill Huizenga:

Well, it's specific and narrow to two companies, but not to an industry. I mean that's what we need to be driving at. And I guess we need to find out whether there's somebody proactively reviewing these activities and these commitments that the companies have made as well as the Fed has made. So how often do you think they should be reassessed? Annually, monthly, biannually?

Jerome Powell:

This is a very narrow set of questions. I can get you great answers really easily, but I don't have them in my head.

Bill Huizenga:

I look forward to those great answers and I yield.

Mr. McHenry:

We'll now go to the gentleman from New Jersey, Mr. Gottheimer, for five minutes.

Josh Gottheimer:

Thank you Mr. Chairman and Chairman Powell for joining us today. Chairman Powell, when you testified before the committee last June, PC inflation was up 6.3% year-over-year. Just a few weeks ago, PC data has showed the number's decreased to 5.4%. We're moving in the right direction, but despite the Federal Reserve raising interest rates at the highest rates since October 2007, we're still far off from the 2% inflation that the Federal Reserve is targeting.

Do you believe 2% is still the right target for inflation and given the ongoing energy transition, the push to shift supply chains out of China and the labor shortage here in the US? Should the Fed consider adjusting its target to avoid overly burdening Americans? Would a decline to 3% inflation be enough to offer price stability without excessive economic pain?

Jerome Powell:

No. 2% inflation's going to remain our longer-term inflation goal.

Josh Gottheimer:

Are you concerned given all the other factors that I mentioned or you think we just have to keep sticking with that?

Jerome Powell:

I think that's got to remain our longer-term inflation goal and it's the global standard and it's our standard and this is not a time at which we can start talking about changing it. We have no instinct to do that.

Josh Gottheimer:

Thank you Mr. Chairman. The gig economy has grown significantly in recent years as more Americans are working as contractors or are running small businesses. The Dallas Federal Reserve has written that gig workers are often not included in payrolls and not counted among the unemployed. And this may understate the number of Americans who could be counted as unemployed. The Fed has also noted a large number of Americans who are missing from the workforce after the pandemic. Do we need to change the way we think about measuring unemployment to account for these changes?

Jerome Powell:

I missed the word you're saying-

Josh Gottheimer:

Sorry. Do you think we need to change the way we think about measuring unemployment to account for these changes?

Jerome Powell:

I didn't catch this. You said... What was the word?

Josh Gottheimer:

Gig? Oh, sorry. Gig workers.

Jerome Powell:

Gig workers. Gig workers.

Josh Gottheimer:

Yes. I'm sorry. Gig workers.

Jerome Powell:

I didn't hear that. That's the word I didn't hear. Okay. No, we clearly need to incorporate gig workers both into the labor force and into whether they're working and they certainly are working. We try to do that. It's not that we're not trying to do that. We may not be doing it perfectly.

Josh Gottheimer:

Is there are a better way to capture them. Just worried that the unemployment numbers may not, given we're still using older measurement ways. Are we updating our measurement?

Jerome Powell:

We absolutely try. We're definitely trying to get those self-employed people. They do report in the household survey, I believe. I can get more for you on that, but we're not doing a perfect job at it because it's a relatively new thing, but we're very well aware of it and they're supposed to be included.

Josh Gottheimer:

That'd be great. I'd love to talk to you more about that.

Jerome Powell:

Great.

Josh Gottheimer:

Thank you. As you're also aware, many of us are having discussions about the long-term fiscal health of our country and our economy. Like many, I worry that higher interest rates will put upward pressure on the national debt. CBL already estimates that annual interest costs will nearly triple for the US over the next decade. You said to the Senate yesterday that interest payments are not a consideration of the Fed, but are you concerned that higher interest rates will more rapidly make payments on the debt unsustainable and are their actions Congress should consider to address this issue?

Jerome Powell:

So I'll say what my predecessors have said, which is that we're on an unsustainable path and ultimately we will get back on a sustainable path and the sooner we get to work on that, the less painful it will be.

Josh Gottheimer:

And rates, of course, were low between the financial crisis and the end of 2021, particularly low after the target inflation rates hit. What do you think the new normal looks like in terms of rates and the Fed balance sheet over the next 5 to 10 years?

Jerome Powell:

It's a really good question. There was a secular decline in longer-term interest rates, which we don't control, for 40 years. To the point where the 10 Year Treasury was at 10% and then at the end of 40 years it was quite low. You're at higher levels, as you pointed out, levels we haven't seen since earlier in this century. I don't think anybody knows what this is going to look like five years down the road. So you have to ask... Demographics haven't gotten better. Globalization may actually move a little bit in reverse, which would tend to produce higher inflation and thus higher rates. But you have to ask the factors that caused low rates, how much of that has changed? And some of it has, but much of it hasn't.

Josh Gottheimer:

Building on that a little bit, what's the right metric you think for a few in our shoes for assessing our fiscal health? Do you think we should be focused on maintaining a specific debt-to-GDP ratio or is there a specific number? Are there other measures lawmakers should be focusing on?

Jerome Powell:

So we've traditionally focused on debt-to-GDP, but many people pointed out before the pandemic that rates were secularly lower and that therefore you could look at real debt service. And there is a lot of research on that. By those measures, actually, debt service was much more easy to handle. Now we have the 10 Year back close to 4%, and I think we need to be careful not to assume that these secularly low, longer-term rates are going to continue indefinitely because that doesn't look likely now. And frankly, most forecasts have always shown things like the 10 Year going back to a higher level. So it won't be that big of a change. I think it's more or less been handled, for example by CBO, that way.

Josh Gottheimer:

Excellent. Thank you so much. And I go back. Thank you. Thanks.

Mr. McHenry:

Now we go to the gentleman, the vice chair of the Digital Assets Subcommittee, the chair of the Housing Subcommittee, Mr. Davidson of Ohio for five minutes.

Warren Davidson:

Thank you, Chairman. Chairman Powell, thank you. It's an honor to be able to talk with you today and appreciate the work you and the monetary policy-focused portion of the Fed does. We're rooting for maybe a more consistent input from our bank regulators. So for the regulatory side, I've spoken with multiple bankers who tell me that they've never seen a higher degree of regulatory burden steering guidance, shaping activities in the market from regulators. And I don't think that's just narrowly focused on the Fed, but I'd ask you to look into it. A lot of people that feel like there's Operation Choke Point 2.0 going on and it's particularly focused on the banking people that are disfavored by the current executive branch primarily, just like the previous Operation Choke Point 2.0 was. And so to the extent that you yield any influence over the regulatory component of the Federal Reserve, I think that would be meaningful and important because our monetary system, part of the strength of the US dollar is of course a stable store of value.

Currencies around the world are wrestling with that and inflation, and you guys are working to tackle it. But the other part is it's an efficient means of an exchange. And when people really feel like some third party's going to steer or shape their money, they don't trust it. I mean the unbanked and the underbanked, fundamentally that lack of trust is part of why they don't use our banking system today.

In fact, that's part of the appeal of the digital asset space is the permissionless nature of it. It seems that a lot of people in the financial services space that have grown up in it, that are leading it today feel threatened by the prospect of change. And if they've maybe reluctantly concluded that you can't ban crypto, they at least want to keep it account-based so that some third party can actually control the assets, which is a polite way of saying, "We don't actually trust our citizens to control their money or their assets. We'll let somebody else do it for them because we can control those third parties." And in fact, that's what the regulators do, isn't it?

Jerome Powell:

Isn't what?

Warren Davidson:

They control the third parties. I mean, if you don't comply with the regulatory regime, you don't get to operate a financial services business, right?

Jerome Powell:

That's right.

Warren Davidson:

Yeah. And so at the end of the day, I think a lot of people were concerned by your remarks yesterday, I know I was, by saying that permissionless digital assets pose a systemic risk to the financial system.

Jerome Powell:

Well, I think what we said in our guidance... By the way, I think if you read through the digital guidance, which I did getting ready for this hearing... Of course I read it before we put it out the first time. But it's pretty careful to say that we don't want regulation to oppose innovation and thus entrench incumbents and things like that. It's pretty balanced, the language. And I think it essentially goes to the question of protecting the safety and soundness of institutions. And there is one, what I think what we say about... I'll paraphrase it, what we say about permissionless blockchains is that they have been vehicles for fraud, vehicles for-

Warren Davidson:

Yeah, 0.24%. So if you follow your own report on fraud, it's a fraction of what it is with the US dollar. Speaking of the dollar, is there any real current threat to the dollar's preeminence as the world's reserve currency?

Jerome Powell:

You're asking a question. I didn't-

Warren Davidson:

Yes, sir.

Jerome Powell:

Is there a real threat? Sorry.

Warren Davidson:

Is there a threat?

Jerome Powell:

I think that our status as the world's reserve currency is not under particularly strong threat right now. I think it's a pretty stable equilibrium. It's not a permanent equilibrium, but there isn't really a serious competitor. And that's not because of any of this. It's because of our democratic institutions and the rule of law and the fact that the dollar's value is pretty stable.

Warren Davidson:

So quickly on the repo market, just any insight into that and then I'll have my last comment here and just leave the last word to you, but particularly curious about the repo market. But I'll close by simply saying I'd ask you to turn off the purchase of mortgage-backed securities. As the chairman of Housing and Insurance, I'm particularly concerned about affordable housing, and the artificial prop for the mortgage-backed securities does raise the cost of capital in that space. So whether you own it or occupy it or rent it, it's going to raise the cost there. But I'd just ask if you'd comment on the safety and soundness of the repo market, if you would?

Jerome Powell:

Of the repo market... As far as I know, the repo market is functioning reasonably well these days. Are you talking about the reverse repo facility or the-

Warren Davidson:

Yes.

Jerome Powell:

Reverse repo facility is a different thing. We can continue this.

Warren Davidson:

I'd like to follow up with you later. And my time has expired. I yield.

Mr. McHenry:

Thanks. Gentleman from Illinois, Mr. Casten, recognized for five minutes.

Sean Casten:

Thank you, Mr. Chair. Always a pleasure to see you and appreciate your time here today. I want to start with this chart in your monetary policy report, which I think is fascinating. Chart 14 on page 17. This is this history of wage growth and job growth. And for those of you who don't have it in front of you, broadly speaking, from 2000 to 2017, we had more workers than jobs. From '17 until the COVID crisis was about the same. And since COVID, we've had more jobs than workers. And there's tons of rich stuff in here that I just enjoyed reading.

But broadly speaking, if that was the only thing going on in the economy, I would assume that we had 20 years where it was essentially a buyer's market for labor. And the last year and a half where it's been a seller's market for labor. As you look at that, and if I go through and I look at from 2010 to 2020, CPI was up 20% over the period and real median wages less than 10%.

So for half of the economy, they didn't keep up with wages. Even though we think of that as a very low inflationary period, corporate profits were also up strongly. As you would expect, I'm not saying that with judgment, right? If it's a buyer's market for labor, you would expect the gains from labor productivity to flow to consumers and profits. And that looks like what it did. In the-

Jerome Powell:

Which chart are you looking at?

Sean Casten:

This is chart 14 on page 17 of the monetary... It's the top right corner there.

Jerome Powell:

Got it. Okay, thanks.

Sean Casten:

In the last year and a half, median wages are up 5%, which is almost as much as they grew during that 10-year period before. And yes, inflation is still a bit higher than that. But what I'm wondering is, as you look at the economy, is wage growth universally bad in your view, or is wage growth good to the extent that it's keeping up with wages because historically wages didn't keep up? And how do you think through that nuance? Because interest rates are a very blunt tool. And if you agree with me that we're now basically in a seller's market for labor, shouldn't we expect and welcome some wage inflation that goes with that?

Jerome Powell:

So let's say two things. First, we want wages to go up in ways that are consistent over time with the increase in productivity and inflation, and that makes all the sense in the world. The other thing I would say is that in this instance, what we've seen is these very high nominal wage gains have very largely been eaten up by higher inflation. So it's very important that we restore price stability so that we can start to see real wage gains, real wage gains after inflation across the income spectrum.

Sean Casten:

Yeah, no, and to be clear, we're all opposed to inflation here. But in that 2010 to 2020 period that we all viewed as a very low inflationary period, the gains from productivity did not flow to labor, wages did not keep up with inflation. And we didn't think about that as a problem for the Fed to fix because overall inflation was down. So I mean, this gets sort of theoretical, but let's say that we had 6% wage inflation in 5% CPI, there'd be more money in people's pockets, but would we view that as a inflationary period to clamp down on, because we didn't view the inverse as a problem, if you will.

Jerome Powell:

So our job is to restore price stability and keep price stability. It isn't to keep wages down and it's certainly not to get involved in trying to establish the appropriate level of labor share of profits, for example. That's not the way we think about it at all. We think about price stability, and when we think about price stability, we think about wages as an important input to that. But we're not targeting a particular level of prices and we would never say-

PART 4 OF 6 ENDS [02:00:04]

Jerome Powell:

We're not targeting a particular level of prices and we would never say that we don't want real wages to go up. What we're really charged with is price stability. And to do that we have to think about wages, but in particular, no one at the Fed would be upset to see that labor share go up but that's not something that our policies affect. That's set by globalization and the advance of technology and educational and skills and aptitude and all those things. That's what drives, and productivity, that's what drives labor share.

Sean Casten:

Yeah, and it's hard to have these conversations in five minutes, I realize-

Jerome Powell:

I'm happy to follow up.

Sean Casten:

I guess what's hard is that also in that 2010 to 2020 period, median home prices went up by 50%. We didn't view that as inflationary. 401ks went up a lot, we didn't view that as inflationary because those were asset increases and so as we have shifted the gains from people who had wealth to people who were dependent on wages, there needs to be some correction and I leave it there because I'm out of time, but how we think about that-

Mr. McHenry:

Gentleman's time is expired. We'll now go to the gentleman from Tennessee, Mr. Rose for five minutes.

Mr. Rose:

hank you for being with us today Chairman Powell. Chair Powell, I just want to echo at the outset some of the concerns that my colleagues have raised about Vice Chair Michael Barr's "holistic" review of capital markets and also about the Fed engaging in climate policy as well as your decision to put Vice Chair Barr in charge of the Community Reinvestment Act rulemaking. With that said, I'm going to dive right into my questions. Chair Powell, I was pleased to see that the US Coin Task Force released their report on the state of coin a few months ago. The report notes that the Federal Reserve and US Mint will be jointly contracting with a third party consultant to review the coin supply chain and develop recommendations to improve it. Chairman Powell, could you provide us with an update on what the Fed has learned from its review of the coin circulation issues that occurred during the pandemic?

Jerome Powell:

So we know that coin, the flow of coins, the natural flow of coins in the economy slowed down a lot because people were staying home and that kind of thing and they may have switched to non coin based means of payment and we feel like the evidence is that that's continued now. People are paying electronically and things like that and coins are sitting in jars and on people's desks and at home and they're not circulating back into the banks and thus to the retail stores and so we're working on that. We're working with the Mint, we're working with all the stakeholders in the coin ecosystem to try to address this problem and we're well aware of it.

Mr. Rose:

So it seems to me that what we learned from that is that it's probably necessary to have a greater reserve of coins if there is such an interruption in the future so that Commerce is not indeed interrupted. Would you share that broad view?

Jerome Powell:

That sounds right. I'm not an expert. I will say it feels like we need more coins now because more of them are sitting in people's homes and pockets and they're not flowing back to where, retailers in particular need the flow of coins. So that sounds right to me.

Mr. Rose:

On a related note, could you speak about the importance of maintaining cash as a viable payment option, particularly for those that lack or don't have access to traditional financial services?

Jerome Powell:

We think it's absolutely critical because there are people who don't have credit cards. Many people don't have credit cards, they don't have good credit and they need to be paying in cash and when stores are not dealing with people who don't have cash, it's a serious problem for those people in the economy. We have it at the Board of Governors and you see it elsewhere because most payments are now taken care of by credit cards and it's very efficient, but we need to be looking out for people who use cash.

Mr. Rose:

Thank you, I appreciate that perspective. Picking up on Mr. Luetkemeyer's concerns that he expressed earlier, as you know, the Consumer Financial Protection Bureau's funding mechanism is intricately linked to the Federal Reserve system. According to Title 10 of Dodd-Frank, each quarter the CFPB director requests an amount that is reasonably necessary to carry out the Bureau's authorities and the Federal Reserve must transfer that amount so long as it does not exceed 12% of the Federal Reserve's total operating expenses. For the first five years of the existence of CFPB of course there was a relaxation there with respect to that 12% cap that allowed 200 million annually to be spent beyond that number so long as long as the reported excess was sent to the president and congressional appropriators.

Chair Powell, during your chairmanship, has the Fed ever rejected a CFPB budget request?

Jerome Powell:

I do not believe so.

Mr. Rose:

And could you tell us what policies and procedures are in place at the Fed to ensure that there is no waste fraud or abuse or that these limits are not otherwise exceeded?

Jerome Powell:

So we have no role in engaging with that. It's really the... We share a common inspector general who does work on those issues, but we don't in any way... We don't have any governance of any kind over the CFPB. We're just a source to them.

Mr. Rose:

Thank you. I appreciate that insight. In closing, Chair Powell, yesterday, Senator Warren asked you what you would say to the 2 million people who may lose their jobs if the Fed keeps raising interest rates. Frankly, Senator Warren should be asking herself the same question when she voted and advocated for the Democrat's reckless spending packages that caused this inflation that we are seeing today and is the reason the Fed has had to raise interest rates in my view. Frankly, I would call on Senator Warren, the President and the Democratic Party for that matter, to apologize to the American people for causing this kitchen table crisis across the country, with that chairman, I yield back.

Mr. McHenry:

Now recognize the General Woman from Massachusetts, Ms. Pressley for five minutes.

Ms. Pressley:

Thank you Chairman Powell for joining us today and for your testimony. I'm going to focus my comments and my questions on the high cost that families in my district are seeing because of your interest rate hikes. Now, while the Fed has acknowledged that higher interest rates are not the primary driver for the slowdown in price increases, you continue to raise interest rates, risking not only millions of jobs but also a recession. Based on projections from the Fed, approximately 2 million people will lose their jobs. So that's 2 million families who will struggle to put food on the table, keep a roof over their heads and to make ends meet, but the economic hardship does not end there. Mr. Chair, I would like to request unanimous consent to submit a recent paper by the Federal Reserve Bank of Cleveland titled Post COVID Inflation Dynamics into the record.

Mr. McHenry:

Without objection.

Ms. Pressley:

Chairman Powell, are you familiar with this publication, yes or no?

Jerome Powell:

No, I'm not.

Ms. Pressley:

Okay, let me give you some context. In this paper, the Fed's own economist predict that reaching the 2% inflation goal that you have said will be impossible without causing a recession and spiking the unemployment rate to 7.4%, which translates to millions of working people losing their jobs. Now Chairman Powell, many economists agree with me when I say that engineering a recession to bring inflation under control is not the right strategy, especially at a time when we are seeing inflation cool in real time independent of your rate hikes. So on behalf of the people of this country to prevent a recession, yes or no, Chairman Powell, will you pause future interest rate hikes?

Jerome Powell:

We're we're not seeking to have a recession and we don't think we need to have a recession to get price stability back-

Ms. Pressley:

Respectfully, will you pause interest rate hikes yes or no?

Jerome Powell:

I don't do yes or no on, will I pause the interest rate hikes, that's a serious question and I can't tell you because I don't know all the facts. That's not a possible-

Ms. Pressley:

Reclaiming my time. In fact, this is a very serious question because it has a very serious implications. The people who will bear the brunt of an economic recession are our most vulnerable. We know from past experiences that recessions have catastrophic and deeply inequitable consequences. In fact, while some will catch a cold, others will catch pneumonia but you know that an economic cold or pneumonia. In fact in your opening statement you said, "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." Could you elaborate, what is this effect to communities, families and businesses, these interest rate hikes?

Jerome Powell:

Well, right now we're trying to bring down inflation on behalf of all those families. I think high inflation is hurting, particularly working families all around the country very badly and as you know, if you're on a very limited budget and you don't have a lot of excess earnings, when prices start going up, you're in trouble right away. Middle and upper middle class people have more resources. So we think it's absolutely critical for the working people of this country that we get inflation back under control and also while we're at it, we have a dual mandate-

Ms. Pressley:

Apologies chair. I'm just reclaiming my time here. Here's the thing, the most devastating impacts will be to our most vulnerable, veterans... To our most vulnerable, veterans, the elderly, low income workers, Black and Brown workers, those who have often ignored and been neglected in the name of what you refer to as appropriate monetary policy and yet you assert that you will stay the course. It's unconscionable and our most vulnerable workers and families cannot afford to wait for you to realize the harm that you are doing. In my opinion, this sounds more like the assertions of a greedy corporation than someone who has a public mission on behalf of the people of this country.

So one more question with my remaining time here. Chairman Powell, another consequence of your interest rate hikes has been the increase of the average 30 year fixed mortgage rate to 6.6% double of what it was two years ago. Do you see this widening inequity in the housing market as a problem and what steps will you take to make housing more affordable? This is putting a home ownership further and further out of reach for my constituents, new parents, millennials, people of color contributing to inequities and the racial wealth gap. So what are your thoughts on that?

Jerome Powell:

Well, our policies do affect-

Mr. McHenry:

Gentleman, the lady's time has expired. Chair can submit for the record or answer.

Jerome Powell:

I'll briefly say that if I can, that our interest rate policies affect interest sensitive spending very directly when we cut rates, they held housing. When we raise rates, you see the effect on housing.

Ms. Pressley:

Thank you.

Mr. McHenry:

Gentleman from South Carolina, Mr. Timmons is now recognized for five minutes.

Mr Timmons:

Thank you Mr. Chairman and thank you Chair Powell for being with us today. We currently have $32 trillion in debt. Our debt to GDP ratio is 120%, the highest it's ever been and yes, we have a debt ceiling fight brewing for this summer. I would argue it's an opportunity to get our fiscal house in order, but sadly there's no meaningful bipartisan effort to responsibly address our debt both sides have even preemptively started political attacks alleging either side wants to cut social security and healthcare but politics and talking points will not fix our problem. Our debt is the greatest national security threat. Social security will be insolvent in 2033 and our healthcare system is fundamentally broken. We spend twice as much as the average country per person and our obesity rate is three times the average. I want to be clear though, I'm not advocating cuts to social security, but my social security will have to be different than my father's and we must change the incentive structures of our healthcare system.

Briefly, let's go over some history. Social security was created in 1937. The retirement age then was 65 and average life expectancy was 60. Easy to see how that math works. In 1960, Congress raised the retirement age to 67. It has not been increased since then. That year life expectancy was 69. That math still works due to a growing population, but it's getting narrower. I will throw in another few statistics for that year 1960. 14% of Americans were obese and our debt to GDP ratio was 53%. Let's fast forward to this year. Our retirement age is still 67 but our life expectancy is 77. That math clearly does not work, nor is the program functioning with the purpose for which it was designed and shockingly, our obesity rate is set 37% and we spend $13,000 per person on healthcare compared to the global average of $6,000 per person and 13% obesity rate.

Clearly our healthcare system is failing. Our system focuses on managing sickness where we should be facilitating health and wellness. We will only meaningfully be able to address the debt ceiling by focusing on the biggest drivers of our debt. Responsible policy makers should be focused on saving social security by reforming it and transforming our healthcare system to facilitate a healthy citizenry capable of working and being contributing members of society. The American people deserve more than the political nonsense. Five years ago the number one issue I ran on was debt. It has been and continues to be our greatest national security risk. I hate to say it, but the last four years has gotten way worse. Congress has spent $7 trillion of which $5 trillion was done mostly on party lines. The Democrat majority has not only spent money we don't have over the last four years, but their fiscal policy has caused out of control inflation, which caused you to raise interest rates.

Last year I asked you if you ever took into consideration the impact of interest rate increases on the cost of our debt service. You appropriately and adamantly said no. Our debt service costs the next 10 years will be over $10 trillion. I'm going to point out two things. Number one, that is more than all of our debt service since 1940 combined, the last 80 years, and while you did not take interest rate increases impact on our debt service into your decision making, the best estimate is that those rate increases will increase our debt service costs by $2 trillion in the next 10 years. So basically, the $7 trillion that we spent... The Democrats spent in the last four years is going to cost us an additional $2 trillion and that's not factoring future rate increases as you continue to appropriately try to get inflation under control. As you can tell, this is a huge problem.

The $7 trillion unnecessary spending in the last four years has caused inflation. Some of my colleagues across the aisle disagree with that causal relationship. Clinton's Treasury Secretary and Obama's Director of National Economic Council, Larry Summers wrote an op-ed before they spent the money and said it was going to cause inflation and he has gone on the, I was right tour, for the last couple years. We need responsible policy makers to address our debt. Let's talk about what's not serious and that's minting a trillion dollar coin. Many of my colleagues across the aisle have advocated for this. Luckily both President Biden's, Secretary Yellen have said that this is not a serious proposal and they have no plans of considering it. Unfortunately, the Biden administration has a bit of a history of doing a 180 when the political wins blow. Most recently he said he would veto the DC Crime Bill and now he's adamantly supporting it and plans to sign it. So Chair Powell, my only question of you is if Biden and Yellen sends you a trillion dollar coin, will you accept it?

Jerome Powell:

And what I will say to that, this only winds up one way and that is with Congress raising the debt ceiling.

Mr Timmons:

So you will not accept a trillion dollar coin and treat it as a trillion dollars if it's sent to you?

Jerome Powell:

I'll add there are no rabbits to be pulled out of hats here. This only ends with Congress raising-

Mr Timmons:

I know you don't like yes or nos, but if you were sent a trillion dollar coin and asked treat it as a trillion dollars, will you treat it as a trillion dollars?

Jerome Powell:

That would be a rabbit coming out of a hat.

Mr Timmons:

I'll take that as a no. Thank you. Mr. Chairman, I yield back.

Mr. McHenry:

Now recognize the gentlewoman from Michigan, Ms. Tlaib for five minutes.

Ms. Tlaib:

Thank you so much Mr. Chairman. Thank you Chair Powell for being here. You have a lot of projections, economic projections, various data, various reports that are coming out, how much, and you've studied inflation, right, I mean obviously it's your number one priority right now. How much is inflation impacted by these three things, corporate profiteering, executive, egregious executive pay, and the use of share stock buybacks?

Jerome Powell:

So I don't have numbers, but I would say in the case of executive pay and... Well, in the case of sharer purchases, I can't think of how it would affect inflation. In case of executive pay, that would be very small in terms of the broader economy. In terms of profits though, the way I think about that is profits are high. The places where profits are really high, is places where there are shortages and supply chain issues and as those things get better as they are, you're going to see inflation come down and even prices come down and you'll see corporate margins come down there and that'll be part of how inflation comes down.

Ms. Tlaib:

So does that corporate profiteering does impact inflation, you don't have any stats or percentage wise how much of it?

Jerome Powell:

Yeah.

Ms. Tlaib:

Because I really paid attention to your testimony in the Senate hearing yesterday and there was a lot of conversation about my neighbors and residents wages and so forth. They're finally starting to see a little bit more closer to possibly getting fair wages. It's not even far enough, but I don't know if the Feds is paying closer attention to monopolies, corporate profiteering and executive egregious pay, all of it. Even the stock buybacks, you're saying all of that aside, you're focused more on wages and increasing the interest rate than on those other-

Jerome Powell:

Our focus is really on price stability, not so much wages. Wages play into that because they're an important cost for business, but they're not, we're not trying to achieve a particular level of wages. We're trying to achieve 2% inflation.

Ms. Tlaib:

Yeah and I think it's really important. Chairman, what we saw during the pandemic is the wealthy and the corporations continued to profit in large scale and still do buybacks and still do executive, really egregious executive pay and benefits and so forth for those at the top and then of course the communities and such were impacted by it but what I hear consistently is folks thinking that's the reason, oh, all of a sudden wages are skyrocketing all this but all I see is continuation again of those that are already getting a huge benefit, the folks at the top, the executives and so forth. My friend Glenn taught me this today, that the Feds are actually sitting on something in Dodd-Frank section 956. You all are sitting on if for the last 12 years on guidance regarding executive compensation and the high risks of it like around... There was some sort of proposal done, not implemented again, it's been 12 years. Why is that something that you're not concerned about regarding inflation?

Jerome Powell:

Well, that's a-

Ms. Tlaib:

One, you guys are sitting on it right? Why, it's been 12 years and then two, why is that you're saying that's not a big deal, that's not going to impact the cost of products and so forth for our residents?

Jerome Powell:

It's a multi-agency rule and there have been repeated attempts to get five or six or seven, however many it is, agencies to agree. That's one thing-

Ms. Tlaib:

On disclosures?

Jerome Powell:

No, no, it's on policies to-

Ms. Tlaib:

Yeah, which include disclosures and arrangements regarding executive pay and the risk of it.

Jerome Powell:

I think the disclosures are there... Anyway, 956 is, you're right, we haven't been able to get agreement among the agencies, but more to the point, boards long since, this is just for the big banks where we have this authority long since board of directors are very focused on how executive compensation works and that it not reward unnecessarily risky behavior and that kinds of things.

Ms. Tlaib:

But in Dodd-Frank, which Congress passed, you're supposed to put something in place and it's not in place and look, I'm saying this because so many people in this chamber and I feel like the Feds are more obsessed with wages than they are in regards to the monopolies, the corporate profiteering. There hasn't been any... I mean really, I don't think there is a laser focus on that and it's really... I think the Feds and Congress can support fair wages and still combat inflation if you are fair in combating egregious executive pay, monopolies in corporate profiteering.

Jerome Powell:

We don't do competition policy and we also don't, broadly speaking, regulate corporate wages.

Ms. Tlaib:

But 956 would have adjust it-

Mr. McHenry:

The lady's time is expired.

Ms. Tlaib:

956 addresses it, you should have implemented... It's 12 years.

Mr. McHenry:

The gentleman from South Carolina, Mr. Norman is now recognized for five minutes.

Mr. Norman:

Thank you Mr. Powell, appreciate you coming in. I don't have to tell you the fact that housing so goes housing, so goes the economy. I'm from a state that from, South Carolina we have people moving in, the population's increasing and I can tell you housing, not just single family housing is in trouble. People are finishing what's in the pipeline. It's now affected multi-family apartments. The high rents that they did get with inflation, that's entirely caused for the most part by the policies of this administration with gas, buying it from other countries, with supply chain shortages. There is no reason to start a project when you can't get supplies and that's what we're facing in the housing industry at all levels.

So any increase in interest is just another dagger that's going to kill the housing industry along with commercial projects that, again, the pipeline's filling up, but the pipeline, once it leaves, you're not going to have any, and I'm from a state that's with people moving in. One of the things that you hear, I think Mr. Davidson mentioned was regulations. Banks are complaining about being over-regulated and the costs associated with it. CRA, and I would bring you to left, is in a state of flux, who's determining that and when will you have some guidelines out?

Jerome Powell:

That'll be done by the whole board of governors when we vote on it and also by the OCC and the FDIC.

Mr. Norman:

Will they have any input from those who are having to pay the price of implementing CRA, like get any input from banks that are having to navigate-

Jerome Powell:

So I know that throughout the multi-year process there's been a tremendous amount of interaction with banks, tremendous amount and bank lobby groups and also consumer groups but yeah, there's been a ton of input and working with the industry to try to achieve these statutory goals efficiently. I won't say it's perfect, but there's certainly been a lot of interaction.

Mr. Norman:

So they're getting input prior to implementing the requirements for CRA or the guidelines for CRA?

Jerome Powell:

Yes. I think, I'm pretty sure there's been quite a bit of interaction with the industry in terms of what to do and how to do it.

Mr. Norman:

Okay. Now I think you've stated that you don't feel it's the Federal Reserve's policy to get into implementing climate change.

Jerome Powell:

We shouldn't be climate policy makers. We do have a small role, focused role to play principally with the larger banks to make sure they understand and can manage their climate risks in the long run.

Mr. Norman:

Should it be mandated?

Jerome Powell:

Should what be mandated?

Mr. Norman:

Climate change policies be mandated by the Federal Reserve?

Jerome Powell:

I think again, climate change is something that's going to affect businesses and people and regions and states and whole countries and I think that's got to be a job for elected people by and large. I think what we're going to affect is we just want to make sure that banks understand and can manage the risks that they're running and these are principally longer term risks.

Mr. Norman:

What's concerning to those of us in the business community who have to borrow from banks, the Federal Reserve is conducting a pilot, a climate scenario analysis that's being mandated, not ask, is being mandated for the six largest banks to participate in. That seems to me like a pretty good, when you have to do a scenario and mandate that they do this, is that not the Federal Reserve getting directly involved and mandating?

Jerome Powell:

I think that banks actually want this. These six big banks, they have to face this globally and what they want is uniform approaches and guidance on how to have one set of rules. They're already running, the big six banks that we're talking to, they're already running climate scenarios all the time, multiple climate scenarios.

Mr. Norman:

Most of the banks are well capitalized. Now that could change, and this is just another expense that is out there. On the CFPB, the history, I think you said it was 12% it cannot go above 12% ratio, has that, I mean that does not seem logical to me. Has it ever been below the 12% from your perspective?

Jerome Powell:

Someone here quoted the law and that rang a bell for me. So that is what the law says. Have they been below, I'd have to go back. I'm happy to provide it. It's all trans-

Mr. Norman:

If you could, because it seems to me like that's a man... If you've got that cap, businesses couldn't operate like that because it would be no incentive to reduce the price as long as it's automated. Thank you.

Jerome Powell:

That's the way the law is set up.

Mr. Norman:

Thank you for being here.

Jerome Powell:

Thank you.

Mr. McHenry:

The gentlewoman from Texas, Ms. Garcia is now recognized for five minutes.

Ms. Garcia:

Thank you Mr. Chairman and thank you Chairman Powell for being with us today, the end is in sight. I would like to begin by highlighting an issue that has been a concern for the Congressional Hispanic Caucus and others. I know that the chairman has suggested that we're going to weave in the diversity inclusion issues throughout our hearing. So here goes my concern. There has never been a Latino Federal Reserve president and further only about 5% of the Federal Reserves overall workforce identifies as Hispanic or Latino. As we know over the past year or so, there have been several presidential vacancies at the Federal Reserve banks and there has still been consistent failure to appoint a Latino candidate. Chair Powell, are you aware of this trend and do you agree that it's a problem that our diversity inclusion numbers in Federal Reserve Board are not reflective of the Latino population?

Jerome Powell:

Yes. It's something we've been focusing on.

Ms. Garcia:

All right and can we get a commitment from you that you'll work on the workforce issues internally?

Jerome Powell:

Yes.

Ms. Garcia:

Thank you so much and I'd like to now follow up a little bit on some of the questions from Representative Norman because I too have a concern about housing costs, particularly as it relates to equity in the negative impact on minority communities. I think you said in your paper that activity in the housing sector continues to weaken, largely reflecting higher mortgage rates. As he mentioned, the rates are higher, not only impacting single-family housing, but multi-family housing and it's also becoming even more difficult for people in my district, which is 77% Latino to be able to buy their first time, first home buyer. The workforce entry level kind of housing as financing homes get harder as mortgage rates rise, the population of human buyers is skewing towards older, wealthier and whiter communities. In many cases, in our suburbs, equity firms are buying out the housing stock.

Chair Powell, can you please speak about the relationship between Federal Reserve interest rate hikes and housing inequity and what needs to change here?

Jerome Powell:

Well, what needs to change is we need to get inflation under control so that interest rates can come back down. In the meantime, they're high because inflation is hurting all of your constituents, not just the housing sector and all of everybody's constituents and it's our job under the law-

PART 5 OF 6 ENDS [02:30:04]

Jerome Powell:

And all of everybody's constituents. And it's our job under the law to restore price stability and also to keep maximum employment.

Ms. Garcia:

Is there anything else that Congress can be doing in this respect?

Jerome Powell:

That would be up to Congress. But there are lots of ways in which Congress can support people in various ways, but that's really in your hands.

Ms. Garcia:

Right. Now I want to move on into the numbers that you mentioned again in your remarks at page two. You mentioned that of course we all know there's been a record, historic unemployment rate is down now to 3.4%, the lowest I believe in history. And thank you Mr. President for that. But you also mentioned that there's 1.9 job openings for each unemployed individual. I wondered if you could tell me how you define unemployed individual. What does the unemployed individual profile look like?

Jerome Powell:

So that has a very specific meaning. It's someone who is not working but is actively seeking a job. So for example, if you take six months off and stop looking for a job you're no longer unemployed. So that means there's a group of people who are around the edges of the labor force who don't count as unemployed, and those people are marginally attached to the labor force, that kind of thing. But to be actually unemployed you've got to be looking actively for work in the statistics.

Ms. Garcia:

Right. So it does not include people who are perhaps disabled and cannot find accommodations in the workplace to be able to get a job?

Jerome Powell:

Unless they're looking for it. The test is whether you're actively looking, I think in the last four-

Ms. Garcia:

Actively looking regardless of age?

Jerome Powell:

That's right.

Ms. Garcia:

Whether or not they're-

Jerome Powell:

It's not a value judgment, it's the way we assess unemployment. We look at the other groups too, but actual unemployment is [inaudible 02:31:50]

Ms. Garcia:

How do you factor in the people that actually are on unemployment insurance?

Jerome Powell:

Sorry?

Ms. Garcia:

How do you factor in the people who are on unemployment insurance?

Jerome Powell:

Well they're unemployed. They've got to be, by definition we count them as unemployed or they wouldn't qualify under the state requirements.

Ms. Garcia:

Right. Well I just want to make sure that we clearly understand that there's children, there's people that are older, people that are disabled, people that can't find daycare. There's so many other reasons why someone is unemployed.

Jerome Powell:

Yes.

Ms. Garcia:

All right, thank you. I yield back.

Chairman McHenry:

The gentleman from Wisconsin, Mr. Steil, the Chair of the House Administration Committee is recognized for five minutes.

Mr. Steil:

Chairman Powell, thank you for being here with us today. Your testimony today has been insightful as we look to tackle inflation, the impact that it's having on families across the United States right now. I want to go back to a comment that was quoted to you as in regards to questioning from Senator Kennedy yesterday regarding the impact that fiscal policy is having as it relates to inflation. And the quote that was attributed to you was that it wasn't a big factor.

As we look at a whole host of policies here on Capitol Hill, from reckless spending that we saw in the previous Congress, a lack of what we just discussed, individuals who are outside the labor market, how do we get these folks back into the labor market and whether or not we have policies that are discouraging folks to come back into work, as we look at high energy cost and opportunity to drive energy prices lower by unleashing American energy, how do you factor in the fiscal policies or how should policy makers factor in the fiscal policies and their impact that that's also having an inflation?

Not looking for your advice on the fiscal policies 'cause I know you want to stay out of that, but how should lawmakers be looking at the fiscal policy and its impact on inflation?

Jerome Powell:

So let's take energy for example. So remember, inflation is the change in prices it's not the level, as you well know. So energy prices have been coming down, right? They're still high but they've been coming down and they're contributing negatively to headline inflation. So when I say it's not contributing to inflation, that's what I mean.

In addition, if you look at aggregate spending it peaked and then it's been coming down. So the fiscal impulse is actually negative at this point. It's no longer... Most of the inflation that we now have, something like two-thirds of the contribution of inflation in core PCE inflation, comes from the services sector. And that isn't really about fiscal policy. Fiscal policy was important at the very beginning, so was monetary policy by the way. But now it's more about just inflation is out there and you have to bring it down. The record is it doesn't come down by itself unless it's driven by transitory factors. For example in the goods sector, the supply chains have been getting better, and as that's happened goods inflation has come way down and sometimes it's negative now. I hope that's helpful.

Mr. Steil:

Yeah, no, thank you. So to take that one step further, we're waiting on the President's budget. It's over a month late but we're anticipating receiving that in the near term. And as we look at interest payments on the debt and the cash flow implications that that has, not asking for what you're going to do at the next board meeting for obvious reasons, but as you are in those deliberations to future board meetings and potential rate increases, how does the impact of interest on the debt factor into the calculus of you and your colleagues?

Jerome Powell:

So we don't look at that. If we started to change our monetary policy because we were concerned about the level of debt payments and things like that, that's not something that the United States needs to do and it's not something we do do.

Mr. Steil:

Why would it be something the United States doesn't need to do? Could you elaborate on that?

Jerome Powell:

Yeah, we're going to do our job. Congress has given us the job, maximum employment, price stability, regulate the banks, manage the payment system to some extent. We'll do those jobs. We don't have to worry about the United States budget. That is not our job. And it isn't that the debt today is unsustainable it's that the path is unsustainable.

So we can service our debts, it's just that we're on an unsustainable path, meaning that the debt is growing faster than the economy. So we would never consider... If the central bank has to avoid taking actions because it's concerned about the budget, that's called fiscal dominance and that's a thing you don't see among advanced economies. And it would be something... We think we're a long way from that.

Mr. Steil:

Thanks to your feedback on that point. The CBO just released their report showing potential interest payments on the debt accelerating dramatically over the next decade, showing it would be 14% of our fiscal spend. To compare that, right, national defense will be 13, Social Security is also 14. So it's in that level. That's a policymaker issue, but your insights is that are helpful.

And I only have a few seconds left and a handful of my colleagues have commented on the ongoing review of bank capital standards. I just want to echo those concerns about what the impact would be of a significant capital level increase. Could you just comment briefly about how you quantify the cost of higher capital and the supposed benefits, and how you balance out that risk and reward?

Jerome Powell:

So it's always a balance, it's exactly as you say. We know that the capital increases that I supported back in '12, '13, '14, '15, '16, earlier in my time at the Fed, they made the bank stronger and they made them more resilient. And you really want that, you want a banking system that can stand up and keep doing its job in times of crisis. But the exact balance between that and the availability of capital and the cost of capital is always going to be a matter of judgment.

Mr. Steil:

Thank you very much. I yield back.

Chairman McHenry:

The gentlewoman from Georgia, Ms. Williams, is now recognized for five minutes.

Ms. Williams:

Thank you, Mr. Chairman. As the member of Congress representing Atlanta, the city with the highest racial wealth gap in the country, I'm focused on creating an economy of inclusion, an economy that works for everyone and brings the most marginalized into our economy. Americans and Atlantans flourish when the economy works for everyone.

The Federal Reserve has a mandate of maximum employment that is measured by analyzing various data points of economic conditions. In 2020 the Federal Reserve updated its approach to fulfilling and measuring this mandate to include job growth that was broad-based and inclusive. Chairman Powell, do you agree that broad-based and inclusive growth means job growth that helps reduce racial employment, unemployment and wage disparities?

Jerome Powell:

I think it means what it says. Remember, we don't target any particular... We can't really target a particular racial or ethnic group with that, but we like to think that our decisions are informed by an understanding of diverse groups across the economy.

Ms. Williams:

Well Chairman Powell, could you share examples of how the Fed is including broad-based and inclusive job growth in the maximum employment mandate?

Jerome Powell:

Sure, I'd be glad to. So one thing we do is it's always part of the data that we look at each meeting. And we always talk about it, we always mention it, different unemployment rates and labor force participation rates and wage rates and things like that by racial, ethnic, gender groups and that kind of thing. That's always in the data that we look at and talk about. That's the first thing. So it informs our pursuit of maximum employment. We're trying to take a broader and more inclusive understanding of what that statutory goal means.

Ms. Williams:

Thank you. Two weeks ago, the Federal Trade Commission released data indicating that Georgians reported the most fraud and scam claims of any other state in 2022, amounting to millions of stolen money. The Federal Reserve's website has resources to help consumers protect themselves from scams where criminals leverage the Federal Reserve's name, including emails claiming potential victims are eligible for lottery winnings, robocalls threatening arrest in exchange for money and other phishing communications.

Chairman Powell, how does the Federal Reserve measure, whether it's counter-fraud communications or reaching the most vulnerable households and communities, especially those that might not be following the Federal Reserve press releases or your website or have limited access to broadband?

Jerome Powell:

So when those kind of scams happen, particularly when they involve us, we go on social media to try to reach people and tell them that if they're contacted by someone pretending to be a Federal Reserve person it's not. So we do that. We also work with our inspector general who works with law enforcement to make sure that law enforcement's involved.

So we're aware of these scams. I think you're talking about the ones that involve people pretending to be a Federal Reserve person and, "Get in touch with me and we'll send you some money." And so we do what we can to reach out to the public on that.

Ms. Williams:

So is that after the fact? But what happens before so that the general public is aware that this is happening, for those people who are not on social media or tracking your... Is there another way to get this information out to the general public?

Jerome Powell:

We do what we can. We're not an institution that deals with the general public very much. We deal with banks and of course our rate hikes and rate cuts, our monetary policy affects all Americans. But I think when something like that happens it's a broad program. It's a bunch of people who are perpetuating a fraud on many, many people. And we try to get out there quickly and try to reach people, and again, also alert law enforcement.

Ms. Williams:

Thank you Chairman, and Chairman McHenry I give back the balance of my time.

Chairman McHenry:

That is very kind and gracious of you, the first of the day. We need to commend that for the record. With that we'll recognize the gentleman from Pennsylvania, Mr. Meuser, for five minutes.

Mr Meuser:

Thank you very much, Chairman McHenry. Thank you Chairman Powell for being with us. Chairman, is the Fed's commitment regarding ESG not to force investment banks to renege on their fiduciary responsibilities?

Jerome Powell:

We don't actually have policies in effect in that space. That's not an assignment that we have.

Mr Meuser:

You saw some issuances by heads of some investment banks, not to mention any names, that felt that that was the case.

Jerome Powell:

That the Fed was asking them to... We don't-

Mr Meuser:

SEC, Fed, you stated a couple of minutes ago that you feel that some sort of ESG... You stated that banks want it and-

Jerome Powell:

No, that's different. Completely different. It's regulated financial institutions that we regulate and supervise, they're subject to... Particularly the big ones are subject to [inaudible 02:42:39] climate change. Climate change issues all over the country.

Mr Meuser:

So you agree that the Fed won't ask banks to renege on their fiduciary responsibilities. The Fed won't do that.

Jerome Powell:

We don't regulate the investment banks, the SEC does.

Mr Meuser:

Okay, so the answer is no.

Jerome Powell:

What's the question again?

Mr Meuser:

I'll move on. Earlier some of my colleagues and Chairman McHenry questioned the holistic review of the capital bank holdings, this holistic review, which no one has seen according to my sources. But there are published reports that it will call for more capital to be held by banks. I understand the deferral to Vice Chair Barr, but do you have anything that you could add that would warrant a need for large banks' capital increase?

Jerome Powell:

So there isn't a proposal to evaluate or talk about yet. Vice Chair Barr has indicated he was going to take a look. He said he thinks capital is strong and the question really is, is it strong enough? And I know he's been working and there'll be a process when he does arrive at conclusions. He has no authority to enact something himself, it has to go through the Board of Governors, also through the FDIC and the OCC. [inaudible 02:43:49] transparent process.

Mr Meuser:

Okay. This has nothing to do with the QT... I'm sorry, with the QT initiative, the tightening of the money supply? they're not related at all?

Jerome Powell:

No. No, I would say not.

Mr Meuser:

Okay. Are you comfortable with the QT reductions which have taken place?

Jerome Powell:

Yes. We have the balance sheet moving down at a healthy clip and it seems to be going pretty well. Very well.

Mr Meuser:

Okay. So the Biden administration's fiscal and energy policy has cost trillions in deficit spending, as you well know, very, very excessive trillions. Meanwhile energy costs for the average American, from heating oils to gasoline, have increased by over 40%, and businesses of course, just over the last two years. So high energy obviously affects the cost for manufacturing, wages, general cost of living in almost every aspect of society. Would not such fiscal and energy policy of the Biden administration working hand in hand with initiatives such as QT and initiatives of the Fed be far more effective than the Fed fighting inflation on your own?

Jerome Powell:

Well I mean, so we are the agency that has the responsibility to restore price stability and we just have to do it. That's the task we've been given under the law. It's great if Congress helps, it's great if the administration helps, but we have to deliver it and we will. That's our responsibility, which we fully accept.

Mr Meuser:

We're not risking stagflation if the fiscal policy and monetary policy are working against each other?

Jerome Powell:

Again, we don't comment on fiscal policy. That's for elected people. And we have a job, maximum employment and price stability. We use our tools. We try to stay in our lane, stick to our knitting.

Mr Meuser:

It's just the fear of a number of people that we're going to have high interest rates and higher than 2% inflation if there's not that level of fiscal and monetary cooperation. I.e. stagflation.

Jerome Powell:

Again, fiscal policy does what it's going to do. We take that as exogenous. Fiscal policy will be what you and your colleagues do with it. And that comes into the economy and we see it. And we don't have a view, we don't try to comment on the decisions that you make. And we use our tools to restore price stability no matter what happens outside of our building.

Mr Meuser:

Sure. Okay. Mr. Chairman, I'll yield back. Thank you.

Chairman McHenry:

Gentleman yields back. We now recognize the ranking member of the Oversight Subcommittee, of Mr. Green of Texas for five minutes.

Mr. Green:

Thank you Mr. Chairman. Thank you Mr. Powell for being with us today. I greatly appreciate your work, but I would like to take just a few moments to talk about how our legislative bodies have legitimized systemic racism. It's been done by having a Fed that has a responsibility to produce maximum employment, knowing that the two-to-one Black-white wage gap exists, traditionally. And also knowing that traditional actions and methodologies will not change that, but yet we won't give you the authority to make recommendations or to take actions that would directly target that.

It's not your fault, it's the legislative body's fault. We perpetuate systemic racism in your mandate of maximum employment. We also perpetuate it in lending, because we know that invidious discrimination exist in lending. We know it exists. And there are laws that will prevent and punish persons who cheat banks. You will be prosecuted and you will be fined criminally if you cheat a bank. No such law exists if you cheat a customer. And we know that Black people who are more qualified than whites will get less money when they get a loan and pay a higher interest rate. These are all things that are the case, they're true.

So legislative bodies continue to legitimize systemic racism. And the bodies have become so bold now, many of the members, they're so bold now as to say they're sick and tired of hearing about this. They don't want a discussion about racism and systemic discrimination. They believe that all is well as long as all is well in the white world. A good many. They won't say it that way, Mr. Powell. But that's the way their actions would lead one to conclude they have positioned themselves. Many of these people are my friends, people that I associate with, talk to regularly. But there comes a time when you just have to be truthful. Systemic racism can be eliminated, it can be dealt with. We know how to, but we don't have the will to do it.

So I don't fault you, I don't fault you. Not one scintilla of blame would I cast your way. It's the legislative body. It's the people who sit on this committee who won't allow laws to be passed making it a crime to deny a person a loan who is qualified to get that loan. People on this committee who will say they don't want to hear any more, and encourage persons who are professionals, experts, encourage them to push back against talk about invidious discrimination. Systemic racism emanates from the legislative body.

And you, sir, are in a very awkward position because I genuinely believe that you'd like to do something about it, but you can't. Creates a sad state of affairs. I thank you for the time, Mr. Chairman, and I yield back.

Chairman McHenry:

Gentlemen's time has expired and yields back. The gentleman from Wisconsin, Mr. Fitzgerald, is recognized for five minutes.

Mr. Fitzgerald:

Chairman, thanks for being here today. Probably get right under the wire here. I just had one, and some of my colleagues have touched on this today again, that there's certainly... I think we're well aware, I'm well aware that there's a dynamic back in the district and across this nation. There's a certain segment of adults, 25 to 35 year olds, many of them dual-income, no kids. And they are completely froze out of the housing market right now, either because the cost of a home in a new subdivision in any municipality is a half a million dollars or more.

And as a result of that it's, not only by actions of the Fed I think on the interest rates, but certainly the other thing I wanted to bring up, because the balance sheet at the Fed has gone from 4 trillion to nine post-pandemic, could the Fed, by no longer buying mortgage-backed securities, in a smaller universe of the private sector buyers who demand a higher rate of return, is there not another kind of built in trigger there that mortgage rates are going to continue to go higher unrelated to what the Fed does?

Because I think the concern is that, between the dynamics of no new subdivisions, 25 to 35-year-olds unable to get a loan and then interest rates continuing to climb, all of these factors are just... We're going to lose a generation of adults here that are never going to get homeownership, they're never going to benefit, which we all know is the big wealth builder for any family. So if there's anything I take away from what we heard today and the questions asked, I hope that that is something that the Fed is in tune to and is looking at closely.

Jerome Powell:

One thing is that the challenge with supply nationally, and that's zoning, its people, it's materials... And so the housing stock is constrained to some extent by, it's just harder to find zoning anymore because things are so built up in so many places. And those are not things that we can control.

In terms of our ownership of mortgage-backed securities, what happens with them is they mature or they're repaid or prepaid and they're run off on their own. That's a passive way to shrink the balance sheet. And of course they don't run off very quickly when rates are this high because people are not refinancing their mortgages, because they have much lower mortgage rates. So there's no evidence at this point that the market's having a hard time absorbing the supply of mortgages, because the supply of new mortgages is very low.

It's probably right, it has to be right, that when we're no longer buying mortgages, and we won't be, we're not buying mortgages now and I hope we don't have to buy any more mortgage-backed. We don't buy individual, we buy mortgage-backed securities. I hope we're not doing that anytime soon. We only do that in really severe situations. That the fixed-income markets are gigantic and there's a lot of buyers out there, and where there's a yield there'll be buyers. And I expect that'll be the case.

Not that it wouldn't have some upward pressure on rates for us not to be a buyer anymore, but we weren't a buyer for a very long time. We thought we'd never go back in after the global financial crisis and we kind of had to after the pandemic financial crisis just to keep the markets working. And now we've stopped again.

Mr. Fitzgerald:

Good. Thank you very much, Chair, and I yield back.

Chairman McHenry:

Gentleman yields back. Noteworthy, I want to thank in particular our members, Mr. Fitzgerald, Ms. Williams, for their additional minutes back to the Fed Chair. In a rate environment like this time is money and that's much more valuable these days.

I'd like to thank the Chair for his testimony, and without objection all members will have five legislative days within which to submit additional written questions for the witness to the Chair, which will be forwarded to the witness for his response. I'd ask you, Chair Powell, to please respond as promptly as you're able. And with that, the hearing's adjourned.

Jerome Powell:

Thank you.