Monetary Policy and the State of the Economy
House Financial Services Committee
June 23, 2022

Opening Statements

Chairwoman Waters (D-CA) stated that Americans continue to struggle with inflation and discussed the housing shortage and the impact it has had on inflation. She stated that without action by Congress, inflationary pressures will remain due to the lack of affordable housing and urged passage of the housing portion of the Build Back Better Act. Waters turned to corporate consolidation and greed saying that consolidation is driving up prices and pointed to solutions Democrats passed without Republican support. She used legislation on the baby formula shortage and gas price gouging as examples. Waters said that the Fed has work beyond monetary policy and said that the Fed must work with other regulators to properly oversee the cryptocurrency industry. She encouraged more diversity at the Fed as well beyond the historic confirmations of Lisa Cook and Philip Jefferson.

Ranking Member McHenry (R-NC) stated that prices for everything are spiraling out of control and blamed inflation on trillions of dollars of wasteful Democratic spending. He was confident that Powell was taking the inflation emergency seriously and believed he was the right man for the job. McHenry touched on the Fed's balance sheet voicing his concerns and said that the Fed has its work cut out for him. He turned to the Fed's dual mandate and the Democratic attempt to expand its mandate. McHenry believed that the Fed has serious business to attend to and needs to focus on the middle class. He hoped that Powell would deliver this message to his colleagues. McHenry thanked Powell for his availability and openness to Congress.

Rep. Himes (D-MA) stated that right now is a consequential moment for the Fed and said that there is a real possibility of a recession.

Rep. Barr (R-KY) believed that Powell and the Fed will rise to the occasion to bring down inflation and stated that left-wing ideas are a fever dream. He stated that the Fed needs to focus on doing a limited number of jobs well and believed that the Fed needs to be laser focused on price stability.

Witness Testimony

The Honorable Jerome Powell, ***Chairman, Board of Governors of the Federal Reserve,*** said that the Fed understands the hardship that high inflation is causing, and they are working to restore price stability. He said that it is essential that they bring inflation down. Powell said that inflation remains well above their goal of 2% and said that price pressures have spread to a large range of goods and services. He noted the upward pressure on energy prices due to the War in Ukraine and how China's COVID policy is likely to cause continued disruptions in supply chains. Powell described how the tightening in financial conditions should bring demand into better balance with supply. He said that employment rose over the past few months and improved among all major demographic groups. Powell said that the Fed's monetary policy actions are guided by their mandate, and they are highly attentive to the risks that high inflation has to both parts of their mandate. He said that their policy has been adapting and it will continue to do so. Powell noted the increase in the Federal Funds Rate and how they anticipate further increases. He added that they are also reducing securities holdings and financial conditions have tightened since the fall. Powell said that they will be looking for inflation to come down in the coming months and the increase in rates will depend on the state of the economy and inflation. He said that the American economy is strong and well positioned to deal with tighter monetary policy.

Member Questions

Chairwoman Waters (D-CA) referred to Powell's Senate confirmation hearing and discussed questions asked to him about corporate consolidation. She stated that corporate profit margins are not hurting despite the inflationary pains Americans are feeling. Waters believed that corporate greed and consolidation are driving up prices beyond inflation and called out Tyson Foods. She also included corporate rent and discussed the increasing cost of rent and said this profiteering is outrageous and asked Powell to elaborate on the role corporations play on inflation and consolidation. Powell replied that it is clear that our economy has become more concentrated but said that it is not clear whether there is a correlation between concentration and inflation. In terms of why prices are going up, Powell explained that it has gone up in places where supply is strained, and demand is strong and used the car market as an example. Waters went back to her example of Tyson Foods and that they said the prices were rising due to labor and freight costs while still profiting. She asked how to explain that. Powell replied that he was not familiar or focused on Tyson Foods specifically. Waters asked if the Fed could examine this. Powell replied that he can see that but that the Fed is not in the business of regulating specific companies because it is focused on its dual mandate. He said that in many cases, prices went up due to supply and demand.

Ranking Member McHenry (R-NC) commended Yellen's statement where she rejected corporate greed as the reason for inflation and McHenry agreed. He blamed inflation on the partisan American Rescue Plan and wanted to ask about the policy tools the Fed is using. McHenry complimented the Fed on the lending facilities used during the pandemic and asked Powell's level of commitment to fight inflation. Powell replied that the level of commitment is unconditional and said that we really need to focus on price stability and get inflation back down to 2%. McHenry continued that as the emergency measures are put away, he asked how the economy will respond. Powell explained that when the balance sheet shrinks, and the rates are higher, financial conditions generally tighten. He added that higher interest rates bring asset prices down generally. Powell also said that the exchange rate has disinflationary effects.

McHenry asked about mortgage-backed securities and how this affects housing. Powell thought that the housing market is slowing down from a hot pace and said that the effects of shrinking the balance sheet will be marginal. McHenry asked about any further announcements on the balance sheet. Powell replied that the Fed has a plan and that the markets are aware of that, which is that the securities will mature and run off the balance sheet at the pace the Fed sets. He believed that the markets could handle it.

Rep. Meeks (D-NY) talked about inflation in Europe and asked if inflation was caused by a massive storm of many drivers. He said that he would not single out any factor saying that inflation is a conglomerate of things. Powell replied that some inflationary pressures are out of the Fed's control like oil and food prices. He said that the difference in the US is that the US has a very strong economy and that the bigger issue is demand which the Fed can tackle. Meeks questioned if we can decrease inflation without negatively impacting employment. Powell replied that there is a relationship between unemployment and inflation and said that the challenge is that we are tightening monetary policy to drive growth down to allow the supply to come up and inflation go down. He continued that there is a risk that unemployment could go up but stated that the labor market is strong right now.

Rep. Wagner (R-MO) asked why the Fed decided to keep rates at zero during the summer of 2021. Powell replied that during that time inflation was going down each month through September but that the data turned hard during October and November and since then, the Fed reacted accordingly. He stated that inflation seemed like it would be a moving entity at that time. Wagner believed that the Fed underestimated inflation. Powell agreed that the Fed did underestimate it and that the decision was a judgment call all central banks had to make. He continued that the supply side issues just did not get better and said that the Fed knew its judgment call could be wrong and pivoted accordingly. Wagner believed that the President's policies are only making inflation worse and asked how the Fed can still say it has a pathway to a soft landing. Powell replied that the path has gotten more challenging due to the effects on oil and food prices due to the war in Ukraine.

Rep. Green (D-TX) defended the American Rescue Plan saying that we needed to help Americans during turbulent times. Powell stated that the Fed has a job to do with getting supply and demand back in balance. Green emphasized that we did what we had to do.

Rep. Emmer (R-MN) criticized Democratic spending policies with no oversight mechanisms. Emmer wanted Powell to comment on this, but Powell declined to comment on specific policies. Emmer asked if more stimulus funding would add to the current inflation. Powell declined to comment saying that the Fed is focusing on its mandate and did not want to give advice to Congress.

Rep. Himes (D-CT) discussed rank dishonesty and pointed to inflation all around the world. He said that Republicans have decided that inflation is President Biden's fault. Himes stated that he has read the Fed's monetary policy completely and it does not mention Biden or the ARP once. Himes stated that maybe Democrats overshot but emphasized that the ARP cut child poverty in half. He turned to his white paper on CBDC that was released yesterday and asked about any next steps with respect to the Fed and a CBDC. Powell had not read the white paper in full but said that the Fed and the Administration is working on this. He said that a CBDC should not be a partisan thing and said that the Fed wants to work on the policy and technology sides. Powell pointed to congressional authorization in the white paper and Powell thought that was very important. Himes pointed to the turbulence of the markets and asked what is concerning Powell with systemic risk and rising inflation. Powell stated that the banking market is strong and that there have been issues with illiquidity in some markets. He did not see anything particularly concerning but said that liquidity in the Treasury market has come down.

Rep. Budd (R-NC) touched on the national debt and asked if having a debt over 100% of GDP is unsustainable. Powell acknowledged that the country is not on a sustainable path but said that we are not at that point where it becomes unsustainable yet. Budd turned to regulation and energy production in the US. He asked if allowing more permits and other actions would lower the price of energy. Powell replied that energy questions are for elected officials. Budd asked if the vast amount of regulation is an impediment to growth. Powell answered that the Fed weighs the cost of regulation and benefits. Budd recommended being cautious with regulation and thought that deregulation would free up supply and believed it would be a useful tool to lower inflation.

Rep. Axne (D-IA) referred to research published by the San Francisco Fed yesterday which touched on the impact of supply on inflation. She asked about supply constraints that have pushed gas and energy prices higher. Powell replied that the price of oil is set globally and touched on the spread of refineries which is contributing to the higher price of oil. Axne asked if increasing the supply of gas could lower prices. Powell said that it is hard to argue with that. Axne said that the US has not built a refinery since the 1970s and asked if raising interest rates will help increase the supply of fuel. Powell replied that the Fed has no influence on the price of energy or the supply. Axne asked if there are better options. Powell replied that the Fed has a limited amount of tools which can only influence demand and deferred to comment on tools of Congress. Axne turned to the housing shortage and asked if raising interest rates will help housing supply. Powell agreed that there is a problem with long-term housing supply and said that the Fed's tool can help balance the supply and demand problem. He added that the housing sector is slowing down due to higher mortgage rates. Powell thought that housing supply is an issue for Congress.

Rep. Hollingsworth (R-IN) commented on Axne's testimony and was happy that she discussed the regulatory issues with American refineries. He believed that the future will be more ambiguous and thought that policy signals will be unclear going forward. Hollingsworth asked about future growth and sagging demand. Powell discussed how shrinking the balance sheet has broad financial conditions and said that the Fed cannot fail on getting inflation down to 2%.

Rep. Gottheimer (D-NJ) referred to the last CPI zeroing in on shelter cost and asked Powell about this and how Americans can lower housing costs in the future. Powell replied that the CPI looked at leases that are turning over. Gottheimer shifted to cryptocurrency and worried about a run on stablecoins. He turned to his draft legislation, *the Stablecoin Innovation and Protection Act*, which would define stablecoins and reduce financial instability in the market. Gottheimer asked if non-bank entities could be reliable issuers of qualified stablecoins, with federal oversight, if they can prove that they are fully backed by cash or cash equivalents. Powell recommended that Congress look at this and thought that it was great for Congress to be looking at different approaches. He added that you want to be sure that those entities are appropriately regulated and in the Fed's view at the federal level. Powell thought that ultimately this is a decision for Congress and mentioned the PWG. Gottheimer asked if Powell thought there should be a specific regulator overseeing cryptocurrency like the OCC. Powell answered that for national bank charters, yes, but said that stablecoins now are used principally in capital markets around the digital finance platforms which is more in the area of the SEC. He said if they were to be payment stablecoins, the Fed should be involved and if banks are involved it will go to the banking regulators. Powell said that the US is blessed with a plethora of agencies in the banking sector. Gottheimer asked given the recent challenges, if Congress is moving fast enough here. Powell was encouraged that Congress has multiple bills being worked out and thought that determining a framework is important. Gottheimer asked about the long-term role of the Fed in crypto. Powell replied that if there is a digital dollar it should be under the Fed, but it is still undetermined if a CBDC is needed. He added that anything regarding payments is something the Fed should be involved in.

Rep. Rose (R-TN) referred to Himes' comments saying that the ARP plan is not mentioned in the Fed monetary policy report because the Fed does not comment on specific legislation. Rose asked about inflation being transitory. Powell said that at the time, the Fed and other economists deemed inflation to be transitory and understood that in hindsight it has not been. Rose turned to canceling student debt and asked if the Fed has done any analysis on canceling student debt and its impact on inflation. Powell replied that the Fed would look to the CBO on this and would only analyze if real legislation was a possibility. He emphasized the Fed's independence on legislative issues.

Rep. Pressley (D-MA) discussed the Fed's tools to address inflation and said that many of the supply disruptions are out of the Fed's control. She worried about further tipping the economy into a recession and asked if the Fed needs new tools to uphold its mandate. Powell replied that the Fed does not need more tools and said that its tools are focused on demand. Pressley asked if Powell would support Congress passing legislation allowing the Fed to have more tools. Powell deferred to comment on legislation. He said that while the Fed's tools are blunt, they are targeted to its mandate. Pressley believed that more tools could be helpful to the Fed.

Rep. Steil (R-WI) had grave concerns about the fiscal policy happening right now and turned to the Fed purchasing nearly half of the Treasury debt. He was concerned that this hid the cost of borrowing and worried about the Fed balance sheet. Steil asked about interest payments on the debt and if the rate will remain at 2.4-2.8% or will be higher. Powell replied that the Fed does not publish Treasury rates on the debt but does that internally. He discussed that the Fed will decrease its balance sheet by a trillion dollars in the next few years. Steil was very concerned that interest rates will remain higher and thought that the debt was on an unsustainable path.

Rep. Ocasio-Cortez (D-NY) referred to a summer 2019 hearing with Powell where she asked about the unemployment rate. She asked if some of the contributing factors to today's inflation include supply chain issues and corporations rising prices because they can. Powell commented that supply chain issues are a contributor. Ocasio-Cortez discussed wage growth trailing inflation and talked about a 10% unemployment rate. She said that in this market, that would require an additional 10.5 million people out of work and pointed out that unemployment among black people is double of white unemployment. Ocasio-Cortez asked if congressional action in antitrust laws against companies raising their prices have an inflationary impact. Powell replied that it is hard to say and said that getting supply and demand in alignment is most important.

Rep. Timmons (R-SC) asked if Powell is worried about the current fiscal path and the dollar's position in the long-term. Powell replied that he did not think the dollar as the world's reserve currency was under threat at the moment but agreed that the budget is on an unsustainable path right now. Timmons referred to a meeting last week at the International Association of Insurance Supervisors (IAIS) a consultation paper was issued on comparability criteria looking at the use of international capital standard versus the aggregation method. He continued that the US has committed to using an aggregation-like approach here through the National Association of Insurance Commissioner's group Capita Calculation and the Fed's building block approach. Timmons said that European insurers take the view that there cannot be two versions of an international capital standard. He asked if the Fed will continue to advocate and support the aggregation method as an alternative to the international capital standard. Powell admitted that he was a little rusty on this but said that the Fed is strongly committed to capital standards that work for US insurance companies. Timmons stated that the US regulates insurance differently and does not need international bodies changing our way of doing things and wanted Powell to stand up for American businesses. Powell thought that the Fed was doing just that.

Rep. Auchincloss (D-MA) stated that once inflationary predictions are out to the public, they are hard to dislodge from the public's mind. He discussed unexpected high inflation and how this impacts public trust in the Fed and asked if the Fed can track the degree of confidence from the public. Powell replied that if the public expects inflation to come down, it will, and said that the Fed tracks all of these measures which it publishes at various times. He emphasized that the Fed needs to get inflation down no matter what. Auchincloss thought it was critical for businesses and the public to have confidence in the Fed. He asked about quantitative tightening. Powell replied that when the balance sheet shrinks, it puts more paper in the public's hands which should have some upward pressure over time. Auchincloss asked for an update on FedNow and the plans for access both to establish banks and fintechs. Powell replied that FedNow is expected to go live next year and believed that the Fed is on track to do that. He said that the Fed is looking at mainly giving a broad sweep of banks access and would have to look at going beyond that.

Rep. Norman (R-SC) asked if housing is a strong indicator of where the economy is going because it affects so many aspects of the economy. Powell agreed that housing is an important sector of the economy. Norman stated that the current housing market is largely indicating a recession and thought that the war on energy from the Administration is going to cause the country to go into recession. Norman asked if corporate greed is causing inflation. Powell replied that greed is a micro-economic phenomenon. Norman asked if Putin was responsible for the gas prices in 2016-2020. Powell did not think so. Norman mentioned student debt cancellation and asked how that will impact the economy. Powell replied that the Fed does not score that. Norman asked if the Fed would need approval from Congress before moving on with a CBDC. Powell replied that he could not imagine the Fed doing anything on the CBDC without legislation.

Rep. Vargas (D-CA) believed that the causes of inflation are being manipulated and lied about. He ran through the inflation rates of various European countries and rejected the premise that inflation exists because of the Biden Administration's policies.

Rep. Lucas (R-OK) discussed the SEC's regulatory agenda and said that the rulemakings could negatively impact the economy. He worried about the speed of these rules and noted that SEC Commissioner Peirce is worried about this as well. Lucas stated that market participants need to safeguard their livelihoods right now and was concerned about the magnitude of rulemakings coming out of the SEC in such a short period of time. He asked Powell to speak to the importance of market liquidity during uncertain times. Powell replied that markets need to be liquid enough for adjustment and be able to absorb news in a way that preserves stability. Lucas discussed the price of gas and asked how the Fed envisions its ability to reign in inflationary expectations. Powell answered that if gas prices remain high, it means that inflation is going to persist. He was mindful that these supply issues understate the urgency of the Fed to handle this even if the Fed cannot use its tools to set energy prices.

Rep. Beatty (D-OH) asked about legislation included in the Committee's markup. Powell declined to comment on any proposed legislation. Beatty asked if housing in any way is tied to inflation. Powell replied yes and said that housing costs are about a third of the CPI and is an important factor of inflation. Beatty echoed Vargas saying that inflation is happening worldwide and asked if Powell wanted to comment on this. Powell replied that while the US has a similar inflation rate to other European countries, the US is different because the inflation here is more about demand which is not a feature of European economies. He added that energy and food prices are part of US inflation but believed that the demand issue is larger.

Rep. Sessions (R-TX) believed that the Biden Administration and Democrats are making friends with inflation and turned to the discussion of unemployment and asked how unemployment is calculated. Powell explained that someone has to be looking for a job for at least a month to be included in the unemployment rate. Sessions pointed to the huge number of jobs available right now and thought that people need to go back to work.

Rep. Lawson (D-FL) asked if the Fed is considering future interest rate increases. Powell replied that the Fed anticipates rate increases throughout the year. He thought that the projections by the FOMC are reasonable. Lawson asked if the Fed gives recommendations to the Administration on what to do in the future. Powell replied no.

Rep. Luetkemeyer (R-MO) asked if the CFPB is an arm of the Fed and if the Fed has any control over the CFPB. Powell replied that the CFPB is fully independent and is technically a bureau. He added that the Fed collaborates with the CFPB but does not oversee it in any way. Luetkemeyer believed that there are four factors of inflation and turned to his concern on regulatory costs. He discussed the cost of compliance and the burden this has on small businesses.

Rep. Sherman (D-CA) discussed tough legacy LIBOR contracts and said that Congress passed the relevant bill in March. He pointed out that Congress passed this over a year in advance and the final step is regulation from the Fed. Sherman asked if he can count on the Fed to get this regulation out by September. Powell was aware of the tight deadline and ensured that the Fed is working hard to make that deadline. Sherman turned to the balance sheet and asked about a mix of mortgage-backed securities and Treasuries. Powell replied that the Fed is aiming for a majority Treasury balance sheet and did not think that the Fed's actions will have additional impact on the mortgage rate. Sherman asked if a recession is inevitable at this time. Powell did not think so.

Rep. Huizenga (R-MI) blamed the Biden Administration for the gas prices and emphasized that the Keystone Pipeline was a partnership with Canada and did not understand why we are not working with our allies. He moved on to a rules-based approach to regulation and was concerned about the lack of guide posts. Huizenga read from the June monetary policy report and asked what principles are important for the FOMC when making decisions on monetary policy. Powell replied that the FOMC tries to think systematically about monetary policy and said that the Taylor Rule is a frame of reference to the dual mandate which he thought was important. Huizenga wanted more transparency from the Fed and encouraged a light touch to regulation.

Rep. Casten (D-IL) stated that there is fear of a recession not because our economy is weak but our democracy is weak. He asked about Powell's concerns if the only tools we use are regarding monetary policy. Powell replied that the Fed is very focused on all things monetary policy. Casten stated that raising rates curtails demand and supply and asked what happens if all we do is raise rates. Powell replied that ultimately, the Fed needs to maintain price stability and said that there are lots of other things to be done in the economy that are outside of the Fed and pointed to the dual mandate of having a strong labor market which is strong right now.

Rep. Barr (R-KY) referred to the 2% inflation rate goal and asked if Powell anticipates that the FOMC will raise the target rate to 3% or 4%. Powell replied that the Fed is shooting for 2%. Barr asked about the end goal for reducing the balance sheet. Powell replied that the goal is the range of $2.5-3 trillion and looked at the GDP level. Barr was concerned that the Fed's regulatory policy could exacerbate supply constraints and agreed that the Fed should not implement fiscal or energy policy. Barr continued that in light of the impending confirmation of Michael Barr as Vice Chair of Supervision, he was concerned that the Fed's regulatory framework could exacerbate supply constraints, specifically forcing banks to sideline capital that institutions could deploy to spur business investment. He stated that gold plating US banks' capital requirements seen in the Basel Committee's changes to the GSIB surcharge in the EU which Barr believed reduces domestic competitiveness. Barr said that the climate finance agenda and climate stress testing that would redirect capital away from fossil energy would be very wrong when we need more, not less, investment in fossil energy and when gas is $5 across the country. Barr asked if Powell acknowledges the role at the Fed related to business investment, regulation, and potentially constraining supply. Powell replied that the Fed is not in the business of allocating credit to a specific industry. Barr warned against heavy regulation in the climate finance area. He turned to Fed independence and asked if giving the Fed new responsibilities outside of its mandate impacts independence. Powell stated that the public has been well served with the Fed's dual mandate and would not want to be accountable for something the Fed could not solve with its tools.

Rep. Torres (D-NY) asked if public investments in an expanding housing supply would help with the housing affordability crisis. Powell agreed that there is a lack of housing but was reluctant to comment on the rest of the question. He added that generally more supply lowers the cost. Torres asked if catastrophic climate change could lead to more inflation. Powell said that

that is hard to determine and depends partly on how Congress acts. He added that the Fed is not a climate policy maker. Torres asked how much higher the interest rate could go. Powell replied that the rate needs to be brought to neutral and then moderately restricted above a neutral rate and said that it is all highly conditional. Torres asked how long it will take to reach the 2% target inflation rate. Powell estimated that we will get to that target within the next two years. Torres asked if there is any precedent for lowering inflation in the past. Powell referred to Volcker saying that he had to do the same. Torres turned to disintermediated and intermediated CBDC and asked which the Fed is leaning toward. Powell replied intermediated. Torres asked about congressional legislation for this. Powell replied that the Fed would encourage congressional approval as a matter of law.

Rep. Hill (R-AR) discussed the Fed's balance sheet and the unrealized capital loss. He asked if the Fed needs a positive capital cushion to carry out its mission. Powell replied no and explained that the Fed has substantial earnings that it gives to the Treasury market and does not retain it as capital as it is not required. Hill continued that there is a point in the interest rate increase that there would be an operation loss and asked if this was possible. Powell replied yes but it has no impact on the Fed being able to operate. Hill asked if the CFPB operation cost is included in the Fed's operation costs. Powell replied yes. Hill thought that this was a mistake made by Congress by imposing on the independent central bank an obligation to in theory fund an on-budget operation and asked in retrospect, if Powell agreed that ideally the Fed earnings would not be earmarked for a particular on-budget operation. Powell replied that in a perfect world, agencies would be funded by different means and pointed out that many of them are self-funding. Hill thought that agencies should be funded through the appropriations process because it puts the Fed in a weird position. Hill asked how Powell uses rules like the Taylor Rule to guide interest rate policy. Powell answered that these rules are deeply embedded in how the Fed makes predictions.

Rep. Adams (D-NC) asked how the interest rate increase will impact the cost of construction. Powell replied that this is leading to cooling the housing market off and said that it does not directly impact construction costs. Adams thought that we need to pay a lot of attention to affordable housing.