The Semiannual Monetary Policy Report to the Congress
Senate Committee on Banking, Housing, and Urban Affairs
March 7, 2023

Opening Statements

Chairman Brown (D-OH) said that they would examine the Fed's actions to combat inflation and whether these actions are actually working. He said that inflation continues to be high, and this impacts ordinary Americans and seniors on fixed incomes, not executives. Brown said that they stand to lose the most if the Fed goes too far. He said that profits continue to go up and workers pay the price. Brown said that it's a complex problem and that raising interest rates is a blunt tool that will not impact the war in Ukraine, supply chains, or the avian flu. He said that corporate profits were at a record high last year and even global bankers called on the Fed to look at this profiteering as a driver of inflation. Brown said that companies have taken advantage of inflation to raise prices and while the Fed cannot make corporations change their ways, they can talk about it. He said that there are other ways to lower prices besides lowering demand, like rebuilding infrastructure. Brown pointed to the train derailment in East Palestine and how this town was once a key producer of ceramics. He pointed to how the train companies skimped on safety and this is the Wall Street model. Brown went on that high interest rates will not solve the problems in our economy, they will make it worse. He emphasized that they must ensure the opportunity of the dignity of work for all Americans. Brown said that it is not just monetary policy that threatens the US economy, but also the threat to not raise the debt ceiling and the court case on the CFPB's funding structure. He pointed to how this court case could also threaten the funding of other agencies, like the Fed.

Ranking Member Scott (R-SC) noted how there is an opening at the Fed and he thought they needed all the information they could get. He thought it was fascinating listening to Chair Brown and said that spending and printing trillions of dollars, caving to the radical left, and policies that led to the worst inflation in 40 years was caused by the out of control spending of the progressives. He said that to stop this, the Fed steps in to cool the economy and the definition of cooling the economy is necessary. Scott said that when you get to 9.1% inflation, things like an increase in gas prices devastates single mothers and seniors in this country. He said that people have to ask where the policymakers are with prices through the roof and the economy in the ditch. Scott said that progressives used the pandemic to usher in spending that takes money out of the pockets of everyday Americans to put it in the coffers of the government. He emphasized trusting the American people as an alternative. Scott said that as he looks around the country and asks himself how devastating it is that everything costs so much more than a year ago. He said the answer is that it is a crisis. He turned to Powell and pointed to how he said that it is essential that they stick to their statutory goals and not address social issues of the day without a statutory mandate. Scott went on that Powell discussed how the Fed should not be a climate policy maker. He asked if he still stood by these comments. **Powell** said yes. Scott noted his letter to Powell on

VC Barr's plan to review capital standards and he looked forward to discussing this during Q&A.

Witness Testimony

The Honorable Jerome Powell*, Chair, Board of Governors of the Federal Reserve System,* said that they are aware of the hardship that high inflation is causing. He said that they have covered a lot of ground in tightening the stance of monetary policy, but they still have a lot of work to do. Powell said that without price stability, the economy does not work for anyone. He then reviewed the current economic data on how the data has shown a reversal in trends. Powell said that this data suggests that inflationary pressures are running higher than expected. He said that inflation has moderated slightly since last year. Powell pointed to a flattening out in rents and how this points to a deceleration component of inflation in the year ahead. He said that to restore price stability, there needs to be lower inflation in core consumer expenditures. Powell went on that the labor market remains tight and unemployment is low. He pointed to strong job gains and how the supply of labor continues to lag. Powell turned to monetary policy and how the FOMC continues to tighten the stance of monetary policy and they continue to anticipate that ongoing increases in the target range for the federal funds rate will be appropriate. He added that they are also working to reduce the size of their balance sheet and they are seeing the impact of this. Powell noted that the FOMC has slowed the rate of increase in recent meetings and will make future decisions based on the economic conditions. He said that they will likely have to maintain a restrictive stance on monetary policy for some time. Powell said that the Fed will stay the course until the job is done.

Member Questions

Chairman Brown (D-OH) said that job growth is strong as unemployment remains low. He pointed to how corporate greed, rising inequality, the war in Ukraine, and supply chain issues will not get better with interest rate increases. He asked if they should be worried about the Fed treating this time as similar to the past, instead of treating it differently. Powell said that there are differences and they have not seen the supply side collapse that we saw with the inflation outbreak. He added that there are some similarities and that there is a mismatch between supply and demand, like housing prices going up and there being a lot of job openings. Powell said that they know they cannot impact everything with their tools, but they can impact supply and demand. Brown said that he is concerned about continued rate increases and the impact on workers. He then pointed to regulators that issued proposed updates to CRA and asked if the Fed remains committed to finalizing this rule with other regulators. Powell said that they remain committed and are in agreement with the other banking regulators. He said it will be some months before it is out. Brown noted the increase in delinquencies and overall risk in the banking sector and he worried about banks ending up with too little capital. He asked Powell to assure him that the Fed would keep capital requirements strong. Powell assured him that they will keep capital requirements strong. Brown asked how the Fed is evaluating the risk of crypto-related activities at their institutions. Powell said that they have been looking at this and they do not want to stifle innovation, but they are watching what is happening in the crypto sector and they see run risk, fraud, and lack of transparency. He said that they are making sure that their regulated financial institutions are being careful with how they engage with crypto and that they inform the Fed. Powell pointed to the joint notices from the banking regulators on this. Brown said that he has long pushed for diversity at the Fed, and he supported the others on the Committee pushing for this.

Ranking Member Scott (R-SC) thought that he and Brown agreed on having strong capital markets. He turned to capital standards and how he thought back on the extraordinary efforts that financial institutions engaged in to distribute the PPP funds. Scott said that our banking system was resilient and he thought VC Barr's comments were troubling. He said we should be laser focused on our economy and opening up opportunities for Americans. Scott said that increased capital requirements is not always beneficial and can cause more harm than good. He said that at a time when inflation is high, we should not be pursuing actions that are harmful, rather we should be supporting small businesses, which he called the engine of our economy. He asked Powell to commit that any ongoing capital review will follow the law and that any regulatory proposals will be risk based and tailored to the institution's size, activities, and complexity. Powell said yes, they are very committed to tailoring. Scott pointed to his letter with McHenry to Gensler on climate disclosure and how Congress designed the Fed to preserve price stability and maximum employment. He was concerned about the Fed's plan for climate scenarios and the Vice Chair trying to incorporate broader ESG policies into the economy. He expected the Fed to focus on bringing inflation down, not policy outside its mandate. Scott asked Powell if he agreed that the Fed did not have the policy or supervisory tools to wade into climate policy. Powell agreed.

Sen. Rounds (R-SD) said that core and headline inflation have remained elevated, and earnings have fallen. He said that more Americans are leaning on credit cards and credit card debt hit a record in 2022 and an average credit card balance went up to around $5,000. Rounds thought this inflation was policy induced and he continues to be concerned about the Fed using the tools they have available, which do not address other issues. Rounds asked Powell if they have the monetary policy tools to reduce inflation. He noted the increase in CPI and asked if this was due to policy decisions from the Administration. Powell said that it is not their job to point fingers and their job is to achieve 2% inflation. Rounds said that if there are competing interests pushing prices higher, then Powell does not have the wherewithal to decide one tool versus another based on whether its policy induced or if its matter of a shortage of supplies or war-related. Powell said their tools work on moderating demand and that is what they can do. Rounds said that if there were policies that actually helped to reduce inflation and allowed energy prices to go down, then the Fed would have less of a need to use their tools. Powell said that on energy, energy has tended to fluctuate and it is not mainly affected by their tools. He said that they can impact things tightly tied to demand. Rounds said that when you have high energy prices, it is tough to impact this with tools at the Fed. Powell said that core inflation has gone up more than they had hoped. Rounds discussed the ICS from the IAIS and compatibility standards coming out and asked Powell if he could confirm that he shared Vice Chair Barr's view on this AM. Powell confirmed that, but said he would have to get back to him.

Sen. Menendez (D-NJ) discussed how Latinos make up a huge percentage of the population of the US and they have no representation at the Fed. He said that despite having five opportunities to nominate qualified Latino economists, the Administration has chosen not to. Menendez asked Powell if it is a truism that the US dollar is the reserve of choice in the world that brings us enormous benefits. Powell agreed. Menendez said that Republicans are now demanding spending cuts in exchange for allowing the Treasury to pay for spending that Congress has already authorized. Menendez asked about the catastrophic damage that a debt default would do to the economy. Powell said that they do not comment on policy issues, but Congress needs to raise the debt ceiling in a timely way and if they fail to do so, the consequences are hard to estimate, but they could be adverse and do long standing harm. Menendez asked if this fight does not also have consequences for the economy. Powell thought it could. Menendez asked if Powell will do everything necessary to contain inflation, including via rate increases. Powell said yes. Menendez asked when this comes into conflict with the mandate of maximum employment. Powell said that this is not an issue at the moment, but the time could come where it is.

Sen. Kennedy (R-LA) thanked Powell for his work and said that he is generally supportive of the actions of the Fed. He said that when Congress spends money, it stimulates the economy. Powell said that this depends on whether it is funded by taxes. Kennedy said that when Congress borrows money to spend it stimulates the economy. Powell agreed. Kennedy said that if Congress reduced spending and debt accumulation, it would make Powell's job easier. Powell did not think fiscal policy was a big driver of inflation, but they should slow the pace of growth. Kennedy said that Powell is raising interest rates to slow down the economy. Powell agreed. Kennedy said that one of the measures of success for this is the unemployment rate, so they are trying to put people out of a job by slowing the economy. Powell said that this is one measure, but they are trying to realign supply and demand. Kennedy said that The Economist did a study on disinflationary periods and this is what the Fed is trying to do. Powell agreed. Kennedy said that based on history when we got inflation down, to reduce inflation by 2%, unemployment had to go up 3.6%. Powell said he did not have the numbers but there were typically recessions. Kennedy said that unless Powell gets help, the unemployment rate needs to rise to 7%. Powell said that this is what the record would have said. Kennedy said that unemployment would need to go to 10.6% to get to 2.2% inflation. Powell said he did not think so. Kennedy said that we need to attack inflation on the fiscal and monetary side, and he understood that Powell did not want to get involved on the fiscal side. Kennedy said that this would result in less unemployment. Powell said that it could work out that way.

Sen. Reed (D-RI) asked to what extent the disruption in supply chains impacted inflation and how locating more supply chains here will impact inflation. Powell said that this was the source of the original inflation, but it has now spread to housing and the rest of the service sector. He said that inflation in goods is still too high and in housing, we will see it come down. Powell said that in the services sector, that's the source of inflation right now. Reed asked if there was anything Powell could do to target that area. Powell said not really. Reed turned to the Fifth Circuit ruling with the CFPB and asked about the implications of this for monetary policy and the country. Powell was reluctant to comment on this. Reed asked if they have people look at this for ramifications. Powell said yes. Reed turned to the impact of rate hikes on workers and how wages have not gone up and inflation expectations are stable. He said that low- and moderate-income people feel this more and asked how Powell can work himself out of this dilemma. Powell said unemployment has been low and wages are moderating, but they are also dealing with issues like supply chains and the war.

Sen. Britt (R-AL) pointed to the increased cost of food from inflation and how this has devastated Americans. She asked what factors and indicators Powell is paying attention to in the coming year as the Federal Open Market Committee decides to increase rates. Powell said that they are looking at inflation in goods, housing, and the service sector. He said that they need inflation in goods to continue, but they need time to pass for inflation in housing to get better. Powell said they would be looking at the service sector carefully. He added that they are also waiting to see the impact of rate increases. Britt asked if more energy production here would help reduce inflation. Powell said that this would reduce energy prices. Britt then turned to the labor participation rate and asked, if there were an increase in people coming into the workforce, would that help drive inflation down to 2.2%. Powell thought so. Britt believed that increasing capital requirements on financial institutions would have a chilling effect on the economy and the availability of financial services. She pointed to how she signed on to the letter last week about concerns over this and asked if the Fed is concerned about the impact on the economy with increased capital requirements, especially with inflation. Powell said that more capital makes banks safer, but it is never clear when you're at the perfect equilibrium and thought it was appropriate to look at it. Britt also thanked Powell for his statement on how the Fed is not a climate policy regulator.

Sen. Warner (D-VA) thought that Powell had done a pretty good job and that his tailored approach had been the right approach. Warner said that he was very concerned about commercial debt, particularly around commercial real estate (CRE), and how the transformation around where people work is transforming and it is transforming the real estate market. He asked Powell how he is looking at this issue. Powell said that on commercial debt generally, it has been moving sideways as a percentage of GDP, however there are pockets of concern like the refinancing spike. He said that generally markets can absorb them, and they are watching this carefully. On CRE, Powell said that the occupation of office space is low and some of this may be turned into condos. He said that in terms of financial stability risk, there is not a lot of exposure to this market, but there are some smaller banks that are exposed to it and they are monitoring this. Warner said that they have seen financial institutions move out of their regulatory perimeter and noted that a lot of nonbanks are involved in mortgages, specifically noting large entities like hedge funds and other funds that are involved with CRE debt. Warner said that he was a big believer in same risk, same regulation as a guide and said he is working on this as is Senator Warren, referring to crypto. Powell agreed, including in the realm of crypto, he thought stablecoins need some attention with respect to regulation.

Sen. Hagerty (R-TN) said that the review of capital requirements is generating the view that higher capital requirements are coming. He thought our financial system navigated COVID well and pointed to Powell's comments on capital levels being adequate. Hagerty asked if still felt this way. Powell said that often new Vice Chairs want to take a fresh look at capital requirements when they come. He said that the role of the Vice Chair is to make recommendations to the full board on this. Hagerty said that one aspect of this seems to be undoing the tailoring requirements from S. 2155 and he thought this was concerning. He thought comments from the Counsel at the Fed yesterday were concerning. Hagerty said that the banking regulators cannot ignore or just not enforce the law. Hagerty asked if Powell would vote for Barr's proposal if it violates S. 2155. Powell could not say, but said that they are committed to tailoring based on risk. Hagerty underscored the independence of the Fed and how the companies expect to be laying people off, but the economic data seems strong. Hagerty asked Powell how he synthesizes this seemingly contradictory data. Powell said that they are seeing progress on inflation and there is going to be improvement in the housing pipeline, but not so much in services. He did not think that the data shows that they have tightened too much. Hagerty asked Powell where he is seeing the federal funds rates landing in this cycle. Powell said they still have other data to see, but the ultimate rate may be higher than what they wrote down in December, which was around 5-5.5%.

Sen. Warren (D-MA) pointed to the extreme interest rate hikes and how Powell has not tipped the economy into recession, but also not brought down inflation. Warren said that in December, the Fed released projections on the economy and according to the report, if the Fed continues to raise interest rates, unemployment will be a full point higher at the end of the year. She asked how many people would lose their jobs. Powell did not know and said that this is not an intended consequence. Warren said that it is about 2 million and asked Powell to speak to these people on how they need to lose their jobs. Powell explained that inflation is very high and working people are suffering, so they are using the tools they have to bring it down. Warren asked if this is just a cost they have to bear. Powell asked if it would be better if the Fed just walked away from their job. Warren pointed to the past and asked how many times the US did not fall into recession. She said that there have been 12 times that the unemployment rate has increased by 1% within one year, which is what Powell is aiming to do. Warren asked how many of those times did the US economy avoid falling into a recession after doing so. Powell thought the number was zero. Warren said that this is correct and said that the Fed has a terrible record of stopping increases in unemployment once it starts going up. She said that if it goes up like previously, there will be 3 million jobs lost. Warren asked what his plan is if this happens. Powell said that the unemployment rate is at 3.4% and they do not think that it needs to go up significantly to get inflation under control. He said that even 4.5% unemployment is pretty good compared to the last 75 years. Warren said that Powell is clinging to the idea that there is only one solution, laying off people, and she thought that they need someone else at the Fed if this is how he approaches it.

Sen. Vance (R-OH) pointed to Central Appalachia and how they have a lot of resources, but there is malinvestment in the region and the economy is not diverse. He said that when he thinks about the resource curse, he thought there is a similar curse associated with the reserve currency status of the US dollar. Vance said that the status comes at a cost to American producers and when he sees our hollowed out industrial base, he wondered if there is a downside to having the US dollar as the reserve currency. He noted the war in Ukraine and providing weapons to Ukraine and how we do not have a lot of people making things in the US. Powell thought this was a big question and said that we have the reserve currency because of our democratic institutions and control over inflation. He said that we benefit by being able to pay for goods all over the world, but there is some economic theory that this has some burdens, but he could not call it to mind. Powell said that it is stable equilibrium and went on that there is no real replacement currency. Vance asked if the dollar being the reserve currency gives us less control over it. Powell did not think so. Vance asked if it makes it harder to fight against currency manipulation and to stabilize exports and imports. Powell said that the Fed does not have an opinion on this, it’s for the Treasury and Congress.

Sen. Van Hollen (D-MD) had a couple questions and asked Powell if he agreed that changes in the size of corporate profits can impact inflation rates. Powell said yes. Van Hollen pointed to the increase in the employment cost index and asked, if corporate profits were to decline from the high levels, if it would be possible to sustain the high levels of growth in the employment cost index over an extended period of time. Powell said yes, depending on what you define as an extended period of time, and that it would depend on productivity. Van Hollen said that over the short term, that would not be a justification for raising rates. Powell said that some softening in labor market conditions will happen as they get inflation under control. Van Hollen said that this is more of a precision and asked if 4% growth is an excuse for jacking up interest rates. Powell said they look at the full picture and he thought there was a tight labor market contributing to inflation. Van Hollen pointed to the decision of corporations to either pocket more profit or pay employees higher wages and said if you lowered profit margins, then you could sustain a higher wage increase without violating the 2% inflation, and asked Powell if this is correct. Powell said that as supply chains get fixed, inflation and margins will come down and help with inflation.

Van Hollen then asked about the tight labor market and how part of the issue is parents with kids and the lack of affordable childcare. He said that the other issue is immigration. Van Hollen asked Powell to talk about these two factors, childcare and legal immigration, and their impact on labor and inflation. Powell said that there is research that shows you can keep women in the workforce with childcare and on immigration, he said that there is a section in the BLS report on how immigration has moved up some labor participation.

Sen. Cramer (R-ND) wanted to respond to Chair Brown's opening statements and said that raising interest rates will not stop Democrats from overspending, overtaxing, and over regulating. He pointed to regulatory greed contributing to corporate greed and emphasized using our domestic energy supply and onshoring corporations. Cramer said that we are now in a debate on how to raise the debt ceiling and Powell has made strong comments on raising it without structural reforms. He warned again that if Powell is going to advise on policy, he should be consistent. Cramer turned to climate policy and asked if the Fed would consider the ramifications of having communities and factories and farmers face high energy prices. He asked if this would be considered in the stress test. Powell said no, that's the job of policymakers. Cramer asked if we are going to consider climate, are we going to consider unreliable energy sources in our country. Powell said that their goal is to look at risk, not to be climate policy makers. He said that banks are already doing climate scenarios and want guidance. Powell said that they do not want to get down the slippery slope of becoming climate policy makers. Cramer hoped this was the case and then said that Warren talked about the luxury of binary choices. He thought it was tough that the White House is working against Powell.

Sen. Tester (D-MT) could not overstate the importance of the Fed's independence. On climate, he said that it is entirely artificial right now anyways and noted the billions going to climate disasters, which is not sustainable. He said that the Fed has a tough job and asked how much inflation has decreased since its peak. Powell said at least a couple percentage points. Tester asked if unemployment had also gone down. Powell said it did. Tester asked Powell where all the factors fall into his decisions on interest rates. Powell said that they look at the current situation and look for the neutral rate, but they do not know where that is. He said that they will likely need to raise it more. Tester asked, when Powell is looking at interest rates and the price of gas, are our interest rates comparable to Europe. Powell said that we have lower rates than Canada, but higher than Europe. Tester asked about the impacts if we do not get inflation under control. Powell said that the social impact will be high, there will be an up and down economy, capital allocation will be difficult, and it's not a good time for the economy.

Sen. Daines (R-MT) noted the high cost of gas and groceries in Montana and how it has real life impacts. He also noted the impact of high inflation and elevated rates on servicing the federal debt. Daines said that he wrote to the CBO on this and noted the dire situation that we are in. He turned to cumulative deficits during the next 10 year window and how the deficits in the 10 year window will exceed 20 trillion. Daines said that in 5 years, we will spend more on the interest than on national defense. He said that these shocking predictions go back to the debate that they had on the Committee with Larry Summers. Daines hoped the President's budget would propose pro-growth policies. He said that the President intends to raise taxes, which is a recipe for disaster. Daines said that Powell is raising interest rates to address the inflation that we have seen in the last few years. Powell agreed. Daines asked if increased rates would result in higher spending costs. Powell said yes. Daines turned to American energy and how companies have stepped up to the plate. He said the European Union is receiving more liquified natural gas from US producers than Russia. He asked Powell if inflation would have been manageable without American energy producers. Powell said that our assets have helped Europe. Daines asked how much worse it would be if we did not have this energy. Powell said it would be hard to estimate.

Sen. Cortez Masto (D-NV) aligned herself with Menendez's comments on a Fed Latino nominee. She noted that she was just talking about affordable housing in the Senate Finance Committee and the importance of workforce housing. Cortez Masto pointed to her concerns about housing contracting due to mortgage rates and people being concerned about getting stuck in a cycle of rents. She asked how they can address housing and also bring down inflation. Powell pointed to the Fed's mandate and noted how their tools end up impacting housing. Cortez Masto noted Warren's conversations about the tools the Fed has and impact on the unemployed and their ability to afford housing. Powell said that they do not know if they need to have a significant downturn in the labor market and how there is a path to achieving 2% without too much impact to the labor market. Cortez Masto noted the impact of inflation in Nevada, high gas prices and more and how Powell said that their focus is to bring inflation back down to 2%. She asked why getting it to 2% is so important and how it helps Nevadans. Powell said that all central banks target 2% and to have people believe it will go back to 2% will anchor it there. He said that expectations about inflation impacts inflation. Powell said that the 2% inflation goal is why inflation was low and predictable. He added that if people do not have to think about inflation, there is also price stability.

Sen. Lummis (R-WY) asked, when Powell is setting these rates and making these decisions, is he considering the cost of borrowing for the US, knowing that Congress has overborrowed and overspent and that the national debt is at least 97% of GDP. She asked if Powell thinks about the costs of borrowing for the US. Powell said that they do not and are not going to, adding that this would be fiscal dominance if they did. Lummis questioned if our level of debt is sustainable. Powell said yes, adding that the path we are on is unsustainable, but the level of debt is sustainable. Powell said countries have fixed this with longer-term programs that have bipartisan support and address the actual problem in the budget. Lummis switched to stablecoins and how the PWG called for bank-like regulation of stablecoins in late 2021, and how in January 2023 in a joint staff statement the federal banking agencies stated that "even after the banks' capital, BSA, and risk management, a bank issuing a stablecoin on an open, public, decentralized network, is highly likely to be inconsistent with safe and sound banking practices." She was confused where we were heading on stablecoins and asked if the January 3 statement indicates that the Fed has decided that stablecoins on a permissionless, distributed ledger have no palace in banks. Powell said that there are concerns about permissionless, public blockchains, noting their susceptibility to fraud, money laundering, and all those things. He said that banking regulators see these as inconsistent with safety and soundness. Lummis asked if properly regulated stablecoins could have a place in the banking system. Powell said that if there is the same regulation for the same activity in stablecoin products, there could be. Lummis then turned to regulation for digital assets and how the EU and others are leading the way. She asked if the US is in danger of being a rule taker, not a rule maker when it comes to digital assets. Powell responded that it would be important for the US to have a workable framework around digital activities and this is something that Congress, in principle, needs to do. Lummis said that she and Gillibrand agreed. She pointed to the Basel framework and their proposed prudential treatment for crypto-asset exposure and how it does not impose a capital charge for digital asset custody, whereas the SEC's SB 121 places a prohibitive capital charge through the backdoor and places consumers at risk in bankruptcy. Lummis said that the Basel framework allows banks to hold digital assets on their balance sheet if the requisite capital is set aside, while in January US bank regulators said that it is forbidden for a US bank to conduct these activities, no matter the capital. She asked what others know about digital asset regulation that the US and the Fed does not. Powell said that he would be loath to comment on this directly, since it was from the SEC. Lummis said that she was just concerned that the Fed and other banking regulators were not following international norms on digital asset regulation.

Sen. Smith (D-MN) said that the spending provided critical relief during the pandemic and many policies were passed on a bipartisan basis. She added that Democrats also lowered the costs of prescription drugs and healthcare costs. Smith said that she talked about the CRA with Powell and appreciated it being raised earlier. She said that she was glad to see this proposed rule and did not think it was perfect, but it was an improvement. She asked if Powell expects this in the coming months and with the departure of Brainard, who will spearhead this. Powell said yes and added that now Barr is responsible for pushing it forward. Smith said that she was happy to see climate and disaster reliance be added to the qualification for CRA credit and asked Powell how he sees this change and how it fits with the objectives of the CRA. Powell said he would rather wait to comment on this until he is fully briefed. Smith thought that climate and the economy were linked and climate action or inaction has a direct impact on people. She asked Powell to update them as they look at the climate resilience of institutions and their pilot. Powell said that they are doing a climate stress scenario, which the big banks are already doing, to understand the longer term risks, and there is a lot of learning going on. He added that they are also providing guidance as the banks have asked for it.

Sen. Tillis (R-NC) said that Powell touched on the interest rate component of the GDP and asked Powell how he is looking at the interest rate sensitive and non interest sensitive readings and what the Fed can do to avoid a zero landing. Powell pointed to the housing sector and how they are impacted by the Fed's policies. He said that activities in housing had declined and housing inflation will be coming down due to inflation in the housing market. Powell noted the services are not as sensitive to interest rates and this is a big percentage of spending. He said that it is about having softer demand and some softening in labor markets, which will take time. Tillis said that Brown mentioned that we have too little capital in the banking sector, which may be true for some, and asked Powell how he views banking capital broadly and about any concerns he has. Powell said that he supported the capital increases after Dodd Frank and the new Vice Chair is doing what new Vice Chairs do, to take a fresh look at capital requirements and see if it is at the right level. Tillis thought looking at it was a good idea and asked if the Fed considers S. 2155 superior to any Basel requirement or any holistic review process. Powell said that S. 2155 called for tailored, as did Dodd Frank, and tailoring is a bedrock aspect of the bank regulatory system and anything they do will reflect appropriate tailoring between the sizes and risks of financial institutions they regulate. Tillis said that a holistic review of a financial services institution will reveal that they are different based on the activities they are involved in, which may result in increasing capital requirements for certain banks based on their business. Tillis asked if this made sense. Powell said that they are required to do this based on the Dodd Frank Act.

Sen. Warnock (D-GA) thought that the Fed board should reflect the diversity of the nation and he hoped that they would see a nominee that reflects it. He supported Menendez's push for a Latino. Warnock then turned to how Georgia is in a housing crisis and how housing is unaffordable. He pointed to how Powell has noted the imbalance in the housing market and how young parents want to afford a home, how the Fed actions are helping that family afford a home. Powell pointed to the Fed's mandate and how they are using their tools to restore price stability and the same people with high mortgage costs are facing high costs of the basic fundamentals in life. Warnock was concerned that the cure might be worse than the disease as prices are stabilized and the mortgage is unaffordable, Warnock asked how the Fed considers the total cost of home ownership, including costs of mortgages in executing their mandate to keep prices stable. Powell said that housing inflation is a very important aspect and measures of new leases and new housing prices show decline in inflation, not price. Warnock asked if this discourages folks who are in a low interest mortgage rate from putting their home on the market and then possibly paying double on the cost of the mortgage of the new house. Powell thought that it could. Warnock asked if raising the federal interest rate would change the cost of borrowing for a company that is trying to develop new housing. Powell said yes. Warnock asked if the cost of borrowing financing to meet supply needs and business's ability to offer high wages are impacted by interest rates. Powell said yes. Warnock said that the Fed does impact housing and he hoped the Fed would think more about this.

Sen. Sinema (I-AZ) noted the War in Ukraine and its impact on inflation. She thought that you cannot look at the economy without looking at the range of potential outcomes from the war. Powell said that the war has impacted the economy through commodity prices. He said that energy prices have settled. Powell added that the war presents risks, and the outcome is uncertain and they model scenarios on what could happen. Sinema said that families are struggling to navigate the economy and making housing less affordable. She said that spending comes with tradeoffs, and it needs to be gotten under control. Sinema said that some economists see no landing and thought this was problematic and asked Powell for his take. Powell said there has been stronger consumer spending, and higher inflation, and if you take these factors, they point to the possibility of needing to raise rates higher than expected. He said that they have 2-3 more important data releases before making an assessment and making a decision in March. Sinema turned to the joint guidance from the banking regulators on crypto assets from January and said that regulators see undue risk for banks in the current environment. She asked if these risks are inherent to crypto assets or if it is due to the current regulatory and policy landscape for crypto assets in the US. Powell said that lots of companies have collapsed in the past year and there has been massive fraud, but we have to be open to the idea that somewhere in there is technology that can be featured in productive innovation that makes people's lives better. He said regulated financial institutions should be quite cautious in this space and noted that their joint releases have said that banks need to be careful because it is the early days, there is not appropriate regulation, and there are risks there that they are still learning about.

Chairman Brown (D-OH) said that higher capital requirements make banks safer and stronger and they do not spend as much on buybacks.

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March 8, 2023

Opening Statements

Chairman McHenry (R-NC) referred to Powell's comments this week that the Fed will stay the course until the job is done and added that the Democrats are trying to push the Fed to stray from its mandate. He said that Biden adhering to the left's social agenda got the country into this inflationary mess and said that inflation is still persisting at rates above the Fed's target. McHenry looked forward to hearing Powell reaffirm his commitment to bringing inflation down and said that the Fed should not operate in the shadows when it comes to influential regulations, especially with regard to changes to bank capital requirements. He turned to climate policy happening at the Fed through scenario analysis and said that while climate change is important, addressing climate change is Congress's job, not the Fed's. McHenry stressed the Fed's dual mandate.

Ranking Member Waters (D-CA) said that since Powell's last visit, Democrats have been working to improve the economy and noted the historically low unemployment rate. She discussed the rate hikes and the outsized impacts the rates are having on housing costs and thought Powell would agree that Congress also has a role, which is why she has been disappointed that in the past two months, Republicans have done nothing to lower inflation. Waters touched on the debt limit and Powell urging Congress to raise the debt ceiling. She hoped Republicans would listen today to the real consequences of what a default on the debt would look like. Waters discussed improvements in diversity at the Fed and noted Lisa Cook's nomination to the Fed. She thought that Biden should build on this progress when filling former VC Brainard's position.

Rep. Barr (R-KY) emphasized that the Fed must focus on bringing down inflation. He also looked forward to discussing the Fed's regulatory activities and how they need to consider the impact of raising bank capital requirements. He said that tailored regulation is required by law and urged the Fed to stick to its mandate and not be a climate regulator.

Rep. Foster (D-IL) said that 15 years since Dodd Frank, he recalled the oath he took back in 2008 to never let the economy be in that situation again. He said that the largest threat on the horizon is a repeat of the 2011 default crisis.

Witness Testimony

The Honorable Jerome Powell, ***Chair, Board of Governors of the Federal Reserve System,*** said that they are aware of the hardship that high inflation is causing. He said that they have covered a lot of ground in tightening the stance of monetary policy, but they still have a lot of work to do. Powell said that without price stability, the economy does not work for anyone. He then reviewed the current economic data on how the data has shown a reversal in trends. Powell said that this data suggests that inflationary pressures are running higher than expected. He said that inflation has moderated slightly since last year. Powell pointed to a flattening out in rents and how this points to a deceleration component of inflation in the year ahead. He said that to restore price stability, there needs to be lower inflation in core consumer expenditures. Powell went on that the labor market remains tight and unemployment is low. He pointed to strong job gains and how the supply of labor continues to lag. Powell turned to monetary policy and how the FOMC continues to tighten the stance of monetary policy and they continue to anticipate that ongoing increases in the target range for the federal funds rate will be appropriate. He added that they are also working to reduce the size of their balance sheet and they are seeing the impact of this. Powell noted that the FOMC has slowed the rate of increase in recent meetings and will make future decisions based on the economic conditions. He said that they will likely have to maintain a restrictive stance on monetary policy for some time. Powell said that the Fed will stay the course until the job is done.

<u>Member Questions</u>

Chairman McHenry (R-NC) discussed the upcoming FOMC Meeting this month and asked Powell about his approach to the meeting. Powell replied that there are some important data points coming up to be analyzed and mentioned the JOLTS, jobs, and CPI reports. He said that when they look at the totality of the data which includes the reports he referred to. Powell said that they are not on a preset path and that they will be guided by the recent data, but still expected them to raise the rates. McHenry asked about the economic factors contributing to rate increases. Powell replied that the January inflation, spending, and jobs reports were very strong. McHenry turned to digital assets regulation referring to a digital assets policy statement that the Fed published on custody in January, saying that if a bank demonstrates that they can conduct this in a safe and sound manner, the capital impact of the SEC's Staff Bulletin (SB) effectively precludes banks from offering digital assets custody service at any scale. He asked Powell if he was aware of this SEC SB and its impact. Powell replied that he was aware of this and the Fed follows generally accepted accounting principles in their capital regulation. McHenry noted his letter to the bank regulators on this and then asked about bank capital standards saying that VC Barr announced a holistic review of capital requirements. He said that there are questions about this process and previous Fed Governors' statements on current capital standards. He asked if the Fed staff or the Board are conducting this review. McHenry wanted to understand the process and why it is necessary for the Fed to conduct a holistic review. He asked if Powell still agreed with the capital adequacy of our current system. Powell replied that VC Barr is taking a fresh look at everything, which is typical for that job, and said that the process of the review is conducted under VC Barr with input from staff and discussions with the governors. He said that nothing has been proposed to the Board or formalized but when the Fed gets to that place, the Fed will be briefed and will vote on a proposal which will go out for comment from the public.

Ranking Member Waters (D-CA) agreed with what Powell said on February 1 saying that Congress must raise the debt limit. She pointed to credit rating downgrades and said that the 2011 debt debate cost the government billions of dollars in borrowing and we did not default then. Waters emphasized that House Republicans had no qualms about paying our debts when Trump was in office but now Republicans are ready to tear down the economy. She asked about the consequences of default. Powell replied that the Fed has no role in fiscal policy but commented that raising the debt ceiling is really the only alternative and added that the Fed cannot protect the Americans in an event of default. Waters referred to McHenry's letter or conversation with Yellen about the time limits she described and asked if it was Powell's understanding that Yellen could pay the bills due until about June. Powell declined to comment on what Yellen said.

Rep. Hill (R-AR) appreciated Powell's commitment to price stability and referred to his comments in the Senate about supporting a regulatory framework on digital assets. He asked if such a framework would result in transparency and rules of the road for consumers and investors. Powell agreed. Hill asked if a framework would help businesses use blockchain and tokenize payments which would be beneficial. Powell agreed. Hill then asked if a framework would help brokers, banks, and custodians participate in a safe and sound way. Powell agreed. Hill pointed to insurance being regulated through the states and asked if the digital assets framework would have to include a state role as well. Powell replied that it's possible. Hill turned to CBDCs and said that Powell has repeatedly said that a retail CBDC would have to be legislated through Congress. Powell reaffirmed this statement. Hill asked about the parameters of a non-retail CBDC that would not require congressional approval. Powell described this as something that would be through the banks but questioned why this would be needed. Hill mentioned FedNow which is supposed to be launched this summer and asked Powell to have the Fed brief the Committee on interoperability and other details about the program. He then asked why the Fedwire system is not up 24/7 now to benefit consumers who use Venmo. Powell replied that he is not sure why it is not 24/7 already and agreed to a briefing.

Rep. Sherman (D-CA) mentioned tough legacy LIBOR, the legislation to address this, and regulation from the Fed on LIBOR prior to its expiration. He asked if they had solved the LIBOR issue. Powell agreed that they had. Sherman agreed with Water's concerns on the debt limit and said that he was eagerly awaiting the President's budget plan. He touched on housing zoning restrictions which are constricting supply and increasing costs. Sherman turned to wire fraud and worried about this as it relates to wiring money when buying a home. He said that in England, you confirm the number and identity of the person or entity when wiring money and thought the US should adopt this practice. Sherman asked when homebuyers can have a system when they can send money to a named payee and number. Powell replied that the Fed continues to focus on this. Sherman turned to crypto, which he said means hidden money, and said that if we impose KYC/AML statutes on it, it would not be crypto anymore. He said that crypto wants some of its ecosystem above the water line subject to KYC, but the rest of it below the water line.

Rep. Sessions (R-TX) asked about improving efficiencies in healthcare to double the GDP and if this is included in the policy report. Powell replied that healthcare is not in the report and said that the delivery system in the US for healthcare is very expensive. Sessions asked about supply chains. Powell replied that supply chains are critically important and on healthcare delivery, that is a question for the Congress. Sessions went on that Powell has a role in education, who's in the workplace, and made his point that healthcare has a staggering impact. He thought that this was an inefficiency in the US.

Rep. Scott (D-GA) discussed their previous focus on creating a more equitable playing field between big banks and regional and community banks. He said that he is now hearing about applying higher capital requirements, that are for banks like Goldman Sachs, to regional banks and he thought this was misguided as it could put community and regional banks out of business.

He asked if this is true. Powell replied that the Fed is not planning this, they believe strongly in tailoring, and said that the Fed has always kept in mind the different needs of regional and community banks. Scott asked where this is coming from or if this is just a rumor about removing the level playing field that differentiates between the regional, community banks and larger, global banks. Powell replied that the Fed is required to tailor regulation for the banks by law according to S. 2155. Scott turned to China saying he is really worried about China and that it is the largest economy in terms of purchasing power.

Rep. Lucas (R-OK) followed up on capital standards saying that commodity markets have seen volatility over the past few years and knew that the Fed is early in the review process of potential changes for capital requirements. He asked Powell to commit to ensuring that the changes will not increase the costs to banks providing those commodity derivatives to end users. Powell asked if he could get back to Lucas on this. Lucas went on that the Fed is not a climate policy maker and was concerned that the Fed is laying the groundwork for climate-related stress tests that would reduce access to capital for certain sectors. He asked how careful Powell is being to ensure that the Fed does not place itself in the climate debate and that their toolkit is not warped for climate policy outcomes. Powell replied that the Fed has a narrow role in climate change which is bank supervision and understood that it is a tightly circumscribed role.

Rep. Lynch (D-MA) discussed the CBDC Working Group and asked when the Fed might be sharing some public updates on CBDC. Powell replied that the Fed issued a call for comment on a CBDC about a year ago and said that the Fed engages with the public on an ongoing basis and is doing research on policy and technology as well. Lynch asked if they had many any decisions on architecture. Powell said that they are in the early stages and just experimenting with what works and does not. Lynch wanted to have more dialogue with the Fed on this to make sure that Congress is up to date. He turned to FedNow and instant payments and asked if there is any reason to think that cryptocurrency would provide faster payments than FedNow and if FedNow would offer advantages over stablecoins. Powell replied that FedNow will allow any bank to offer instant funds and real time payments to customers, which is a great thing, and said that a CBDC is going to be years away while FedNow can get into the hands of the public very quickly. Lynch worried about stablecoins and crypto, asking if they will go to zero when we get a CBDC that has the full faith and credit of the US behind it. Powell replied that he has never understood the value of unbacked crypto, but stablecoins are drawing on the credibility of the dollar but we do not know what's in the reserves because there's no regulation.

Rep. Luetkemeyer (R-MO) said that the reserve currency of the dollar is enormously beneficial to the US and referred to Russian sanctions placed on them by the US. He asked if Powell is concerned about the actions of Russia and China to establish different reserves and conduct transactions in non US dollars. Powell replied that the dollar is the only serious candidate for the world's reserve currency and said that other countries competing on other playing fields may want to establish different currencies, but it would never measure up to the dollar. Luetkemeyer then touched on sanctions and asked how we would sanction China if they invaded Taiwan and if there were talks with allies. Powell stated that the business of sanctions is with the elected government and the Treasury. Luetkemeyer referred to an article on the problem with the Fed's balance sheet and how it looks like a hedge fund whose long term assets are funded by short term borrowing. He asked if the Fed is losing money right now because of the way they have the borrowings they have purchased structured. Powell replied that the Fed always turns over its earnings every year saying that the Fed knows that when you raise interest rates, you will lose money. Luetkemeyer said that the CFPB gets its money from the Fed and that it has to borrow money to pay the CFPB's bills. Powell said that they do not shut down the Fed when they have negative income. Luetkemeyer asked if the Fed does any accountability of the CFPB's spending of these dollars. Powell believed that there are limits built into the law.

Rep. Foster (D-IL) thought it was a mistake that you could hide from the macroeconomic impacts of technology and turned to the historically low unemployment rate asking how we can have this low rate without inflation taking off. He asked if we have less frictional unemployment due to access to job openings online. Powell replied that while inflation is very high, it is coming down which may be tied to an extremely tight labor market. Foster asked Powell about not paying enough attention to leading indicators than lagging indicators and noted looking at current versus new rental contracts. Powell replied that every forecaster is baking in lower rent increases, which is a big part of why people think inflation is going to come down this year. Foster asked what would have happened if we had paid attention to leading indicators. Powell replied that it is hard to know what the lessons are and said that nobody had seen the supply chains collapse and unemployment go to 14%.

Rep. Wagner (R-MO) was pleased to hear Powell discuss yesterday how inflation is hurting the American people and discussed the costs to Americans if it continues. Powell reaffirmed the Fed's commitment to bringing prices down. Wagner turned to China and asked what sort of inflationary impact will the US see with the reopening of China. Powell replied that this could put upward pressure on commodity prices and also help with supply chain issues but did not expect the net effect to be big in the US. Wagner asked if he expected any inflationary impact on global energy markets as China's oil consumption levels go back up. Powell replied that the US has its own oil market and natural gas but said that this could impact Europe. Wagner turned to bank capitalization, saying it is robust, and had concerns about VC Barr's review of bank capital rules. She was concerned that this was happening in a silo and that the results and rulemaking process will not be transparent to the public. She asked if there is any evidence that the banks are undercapitalized since the framework was put in place. Powell replied that the banks are well capitalized and said that there are not any proposals yet, but they will be done in a highly transparent manner. Wagner was glad to hear this and asked if Powell agreed that excessively high capital levels constrain a bank's lending capacity which impacts the economy. Powell replied that there is always a balance saying that more capital means more safety and soundness, but it means that equity capital is also more expensive.

Rep. Beatty (D-OH) referred to a press conference Powell spoke at last month where he stated that there is a lot of spending coming into the construction pipeline which will support economic activity. She asked how the strong pipeline of funding from the Democratic-led spending bills, like the IIJA and CHIPS, will impact economic activity going forward. Powell replied that his point was that there are strong rates of demand and that this would support economic activity. Beatty turned to the FOMC on unemployment rate predictions and had concerns about black unemployment going up. She asked Powell to address the disparity impact here. Powell replied that African American unemployment is as low as it has been right now since it has been tracked since the 1970s and said that there is a persistent gap between black and white unemployment. He said that the best thing we can do is to have price stability and long expansions where the labor market gets tight. Beatty asked if the Fed is committed to working with the FDIC and OCC to finalize the CRA updates soon. Powell replied that he has asked VC Barr to take the lead on the CRA with Brainard leaving.

Rep. Barr (R-KY) discussed the raising of the Fed's federal funds rate and agreed that the historical record cautions strongly about prematurely loosening policy. He asked if the economy will suffer a recession to bring inflation down to 2% and if the terminal rate could go higher than 5.5%. Powell replied that the Fed is very aware of the lags on economic activity caused by monetary policy. He added that they still expect to have a higher level of rates this year, saying it could be higher than 5.5%. Barr turned to VC Barr's review of the capital framework and asked if Powell will commit to not implementing a new capital framework following the review or the Basel Endgame if there is considerable dissent from the Board. Powell replied that he cannot guarantee that but said that the Fed is a consensus organization and that is what they are working toward. Barr asked if he would commit to being consensus driven and not allowing these decisions to be made by one person. Powell stated that no decisions can be made by any one person. Barr continued on climate and said that there seems to be a disconnect on climate policy with regard to Powell's public statements and what the Board is putting out for comment. Powell felt strongly that climate should be addressed by elected people and repeated the narrow role that the Fed has with climate. Barr asked if the Board voted to approve the creation of the climate program. Powell did not think so, saying it was already authorized. Barr was concerned about one governor acting unilaterally to enact major policy changes.

Rep. Himes (D-CT) emphasized independent monetary policy along with the full faith and credit of the US which is being put in jeopardy by Republicans. He said that the time to focus on the deficit is when Congress is voting on spending and tax cuts, not when the good name of the US is depending on it. Himes asked what market signals would indicate that the markets are fed up with the debt instability. Powell replied that the debt ceiling has to be raised by Congress and that there are no other alternatives. Himes asked if it is possible to see interest rates raise more because US debt is seen as risky. Powell replied that rising interest rates and many other things are possible, but it is very uncertain.

Rep. Williams (R-TX) referred to Powell's statements on insurance regulation continuing to be state-based and said that there is an opportunity at the November IAIS Conference to have the US state-based AM formally recognized as comparable or equivalent to the ICS. He thought that we should prioritize a model that encourages deregulation and competition and asked Powell to highlight the benefits of the US state-based AM model compared to the European model. Williams also asked him to confirm that he would push for the AM to be deemed equivalent at the IAIS. Powell replied that the US insurance system has been beneficial as it is and that we do not need to copy others. Williams turned to bank capitalization and the increasing conversations about raising capital requirements for banks. He asked if raising capital requirements would increase the cost of borrowing and add other costs to the economy. Powell replied that it would depend on what banks experience higher capital requirements but said that there has been no proposal yet. Williams asked how the Fed can ensure that it is not placing undue regulation and guidance on banks related to social issues, like climate, and ensure that it remains separate from political influence. Powell reaffirmed the independence of the Fed and repeated that the Fed has a limited scope into climate change.

Rep. Vargas (D-CA) discussed inflation here in the US versus in Europe and how Dodd-Frank was helpful for the banks. He then turned to ESG saying that anti-ESG proponents say that those in favor of ESG are conspiring against oil and coal. Vargas asked Powell if he was conspiring against oil and gas and if there was risk in climate change. Powell said he was not conspiring and that there is longer term risk from climate change. Vargas asked if insurance companies take climate change into account. Powell replied yes in terms of the long-term. Vargas said that they do, referring to his work at Liberty Mutual, and emphasized that we have to take into account ESG factors and thought it was sad that Republicans want to ignore climate change.

Rep. Huizenga (R-MI) thought we should have removed cheap money a long time ago. He then discussed climate in light of the Fed announcing its climate scenario pilot and how other central banks are looking at ESG disclosure. He knew that the Fed is looking at commodities capital charges in the holistic review, but even though the Fed is not forcing banks to encompass climate analysis in their stress tests, there are many initiatives at the Fed that will make it more costly for banks to finance fossil fuel companies. He asked if Powell would commit to withholding support for a new capital rule that increases capital charges on bank activities in traditional energy companies. Powell replied that he cannot promise what he will and will not vote for because he did not know what would be in the proposal, but he did not think the Fed is looking at that saying that this is about overall capital levels. Huizenga wanted to continue this conversation but turned to two opinions issued by Fed legal staff in November 2019 to Vanguard and Black Rock saying that they appear to outline the parameters of how the asset managers can operate without being deemed a bank holding company. He said that as some asset managers play a larger role and clearly strive to influence companies in the free market, we need to remain vigilant. Huizenga asked if the Fed is taking any steps to assess or monitor if Vanguard and Blackrock are complying with the commitments made in November 2019 and December 2020. Powell would have to check and get back to him. Huizenga took this response to mean that this is not being reviewed. He needed to find out if someone was reviewing these activities and their commitments. Huizenga asked how often these companies should be reassessed. Powell replied that these are very narrow questions and would get back to him.

Rep. Gottheimer (D-NJ) discussed longer term inflation goals with Powell and the growth of the gig economy. He asked if we need to change the way we measure unemployment to recognize gig workers. Powell replied that we need to incorporate gig workers into the labor workforce, and we do that, but maybe not perfectly. He said that self-employed people do participate in the household survey and believed that they should be included. Gottheimer asked if higher interest rates will make payments on the national debt unsustainable. Powell replied that we are on an unsustainable path in the long run but will get on the right path in time.

Rep. Davidson (R-OH) discussed debanking industries that are not favored by the Administration and warned against Operation Choke Point 2.0. He said that when people feel that a third party is going to steer or shape their money, they do not trust it and referred to this being why the banked and unbanked remain that way. Davidson said that the digital assets system being permissionless is attractive to people and was concerned with Powell's comments that permissionless digital assets pose a systemic risk to the financial system. Powell referred to their guidance and said that the Fed does not want regulation to stifle innovation and emphasized protecting the safety and soundness of institutions. He noted that permissionless blockchains have been vehicles for fraud. Davidson said that this is a fraction of the fraud that occurs with the US dollar and asked if there is any threat to the US dollar's status as the world's reserve currency. Powell replied that the US dollar's status as the reserve currency is not under strong threat right now. Davidson turned to the repo market asking for insight and requested that the Fed turn off the purchase of mortgage-backed securities (MBS) which raises the cost of capital in the housing space. Powell replied that the repo market is functioning well these days.

Rep. Casten (D-IL) asked about wage growth and thought that we should welcome some wage inflation. Powell replied that they want wage growth to go up consistently and said that in this instance, we have seen inflation eat up nominal wage gain so it is important to go back to price stability so that we can see this gain.

Rep. Rose (R-TN) echoed concerns about VC Barr's holistic review of capital markets [sic], the Fed engaging in climate policy, and VC Barr being put in charge of the CRA review. Rose moved on to reviewing the coin supply chain asking for an update on what the Fed has learned from the coin circulation issues that occurred during the pandemic. Powell replied that the coin flow slowed during the pandemic because people were not leaving their homes as much and that the slow has continued due to electronic payments being more popular. He added that coins are staying in people's homes and pockets and that we need to improve the coin flow. Rose asked Powell to speak to the importance of preserving cash as an option. Powell replied that cash is very important for those in the economy without credit cards and while credit cards are efficient, we need to look out for people who use cash. Rose asked if the Fed has ever rejected a CFPB budget request during his tenure and if there were any policies in place to prevent waste, fraud, and abuse. Powell believed that it had not rejected a budget request and said that the Fed does not have any governance over the CFPB, they are merely a source to them. Rose also referred to Sen. Warren's comments yesterday and how she's partly responsible for the out-of-control spending.

Rep. Pressley (D-MA) discussed interest rate hikes impacting her constituents. She asked if the Fed would pause future interest rate hikes to prevent a recession. Powell replied that he cannot give her an answer, but it is a very serious question. Pressley said that this would impact the most vulnerable. She then discussed the increase in the average 30-year fixed mortgage rate and asked if this widening inequity in the housing market is a problem and what steps he will take to make housing more affordable. Powell replied that interest rate policies affect intransitive spending.

Rep. Timmons (R-SC) advocated for meaningful changes to the structure of Social Security and healthcare. He said that we cannot address the debt ceiling without addressing the biggest costs to the debt. Timmons believed that debt is the country's biggest national security threat. He said that minting a trillion-dollar coin is not a serious proposal and asked if Powell would accept a trillion dollar coin if Biden and Yellen send one to the Fed. Powell replied the debt situation only ends with raising the debt ceiling. He said that the Fed accepting a trillion-dollar coin would be 'a rabbit coming out of the hat.' Timmons took his answer as a no.

Rep. Tlaib (D-MI) asked if corporate profiteering has increased inflation and wanted the Fed to be looking at stock buybacks, egregious executive pay, and corporate profiteering. Powell replied that profits could have an impact, but the Fed's focus is on price stability and a 2% inflation rate. He added that the Fed does not regulate corporate wages. Tlaib also asked Powell about executive compensation and how what was in Dodd-Frank on this should have been implemented.

Rep. Norman (R-SC) pointed to the impact of inflation on rents and housing generally. He asked about the implementation of the CRA and asked if businesses and banks are providing input. Powell replied that there has been a ton of input and interaction with the banks regarding CRA guidelines. Norman then pointed to Powell's comments on how it is not the Fed's policy to get into climate change and asked if there should be Fed mandates on this. Powell said that climate change will impact regions and states and abroad and that the Fed wants banks to be aware of risks and prepared. Norman was concerned about the pilot climate scenario that is being mandated by the Fed and thought this was the Fed getting directly involved in climate. Powell said that banks want this and the big banks want uniform approaches and rules. Norman turned to the CFPB asking if it has ever been below the 12% ratio. Powell replied he thought this was what the law said, but he would have to check on this.

Rep. Garcia (D-TX) highlighted that there has never been a Latino Fed Governor and asked Powell if he saw this lack of diversity as a problem. Powell replied that this has been something the Fed has been working on. Garcia was concerned about housing costs as it relates to rising rates, which are impacting single and multifamily housing and making it more difficult for minorities to buy a home. She said that the population of homebuyers is skewing towards wealthier white people along with private equity firms. Garcia asked him to speak to this issue and what needs to change here. Powell replied that inflation needs to be gotten under control and they need to achieve price stability which would help the housing market. Garcia turned to the unemployment rate and asked about the profile of an unemployed individual. Powell replied that an unemployed individual is someone without a job but looking for a job actively.

Rep. Steil (R-WI) discussed how policymakers should think about the impact of fiscal policy on inflation with Powell. Steil anticipated the President's budget soon and the cash flow implications and asked how interest on the debt plays into decisions as the Fed is looking at potential rate increases. Powell replied that the debt does not impact monetary policy because the Fed is going to do its job without worrying about the budget. He said that the Fed will never consider the budget or the debt. Steil echoed the concerns about the Fed's review of bank capital review standards and asked how the Fed quantifies the costs of higher capital, the supposed benefits, and how they balance risk and reward. Powell agreed that it is a balance and said that the capital increases he supported in the past made the banks stronger, but the exact balance with the availability and cost of capital will always be a judgment decision.

Rep. Williams (D-GA) asked if broad based and inclusive growth helps wage disparities and how they include this in the maximum employment mandate. Powell replied that the Fed policies are not targeted to a group but would like to think that the policies help everyone. Williams turned to the FTC and fraud claims saying that the Fed has resources to warn about scams and other phishing communications and asked how the Fed measures whether these counter fraud communications are touching all communities. Powell replied that the Fed goes on social media to reach people and warn against fraud, along with working with its Inspector General who works with law enforcement.

Rep. Meuser (R-PA) asked if the Fed's commitment regarding ESG is to not to force investment banks to renege on their fiduciary responsibilities. Powell replied that the Fed does not have policies in that space and that the Fed does not regulate the investment banks, the SEC does. Meuser turned to the holistic review of the capital bank holdings and that it calls for more capital to be held by banks. He asked why banks would need a large bank capital increase. Powell replied that VC Barr believes that banks' capital is strong and said that Barr has no authority to enact anything himself. Meuser asked if Powell is comfortable with the QT reductions that have taken place. Powell replied yes. Meuser asked if fiscal and energy policy by the Biden Administration working with the Fed and QT would be more effective than the Fed fighting inflation alone. Powell replied that the Fed is tasked with price stability, which it will do, and declined to comment on fiscal policy.

Rep. Green (D-TX) discussed how legislative bodies perpetuate systemic racism through the mandate of maximum unemployment and lending. He discussed invidious discrimination in lending saying that there are prosecutorial laws in place if you cheat a bank but said that there are no such laws for cheating a customer. Green said that systemic racism can be dealt with if we have the will to do it.

Rep. Fitzgerald (R-WI) discussed 25–35-year-olds being frozen out of the housing market right now despite having two jobs and said that this is due to high interest rates. He asked, if the Fed quit buying MBS, is there a built in trigger that mortgage rates will go higher unrelated to what the Fed does. His concern was that all of these factors (lack of supply, inability to get loans, interest rates etc) will mean that this entire generation will not benefit from owning a home. Fitzgerald hoped that the Fed was in tune with this. Powell replied that the challenges with supply nationally include zoning, people, and materials; the housing stock is restrained due to zoning and where you can build. He said that with MBS, they run off on their own, but not very quickly when rates are this high. Powell said that there is no evidence that the market is having a hard time absorbing these mortgages and said that he hoped that the Fed would not have to buy MBS anytime again soon. He said that when there is a yield, there are buyers.