

The President's Fiscal Year 2024 Budget with Treasury Secretary Janet L. Yellen
Senate Finance Committee
March 16, 2023

Opening Statements

Chair Wyden (D-OR) commented on how the banking regulators are working under existing law with regard to SVB and the Committee wants to get to the bottom of what went wrong. He said that Congress should make sure that there are no questions about the full faith and credit of the US and they should take the default off the table. Wyden said that the House Republican's Budget does not add up according to the CBO. He said that he has talked about this with Yellen as well and the CBO said that the Republicans would have to cut every federal program by 86%. Wyden said that it is no mystery why Republicans have not published a budget yet and said that Biden's budget is based on helping working families. He highlighted the Committee's bipartisan hearing on affordable housing and he thought there was an opportunity for bipartisan cooperation on LIHTC and NHIA. Wyden said that he would work with the sponsors of these bills so they can increase the supply of housing. He noted that the CTC and EITC are included in the budget and will help reduce poverty. Wyden also addressed the unfairness of the two tier tax system and how there is a different set of rules for the very wealthy. Lastly, he had serious concerns about the Administration's approach to implementation of the Inflation Reduction Act (IRA) with regard to critical minerals, saying that FTAs require consultation with Congress.

Ranking Member Crapo (R-ID) said that while the budget is the focus of today's hearing, he expected that the Treasury's actions in relation to SVB would also be discussed. Crapo said that it was important to examine what happened with SVB and the role of the regulators. He also questioned the move to insure all deposits at these banks. He pointed to the increase in interest rates, which contributed to the bank's downfall and noted that Americans have been suffering under rising inflation. Crapo noted that the Administration's fiscal policies have contributed to inflation and corporations are actually paying less in taxes, despite claiming that their legislation would make them pay their fair share. He said that the spending binge must stop and they should enact pro-growth tax policies. Crapo pointed to the success of TCJA and how it increased tax receipts. He said that the President's Budget includes higher taxes on workers and American energy. Crapo turned to the Administration's work with the OECD on the global minimum tax and how the latest guidance shows that this would allow foreign countries to collect GILTI revenue from US companies, which would result in lost US tax revenue. He also noted that the budget requests more funding for the IRS and how the agency has embarked on a spend now, plan later approach. Crapo emphasized that the Administration must work with Republicans to create a better economy for Americans.

Witness Testimony

The Honorable Janet L. Yellen, Secretary, United States Department of the Treasury, began with an update on the banking system and said that the government took forceful actions to

strengthen public confidence in the banking system. She said that they worked to protect all depositors at these banks and shareholders were not protected by the government. Yellen added that this did not involve taxpayer money. She pointed to the Fed's new lending facility to help financial institutions and she reassured them that the banking system is sound and that deposits will be there when people need them. Yellen then discussed the President's FY 2024 Budget and said that it will build on the economic progress they have made. She pointed to the historic economic recovery that we have experienced and noted that we reached the lowest unemployment rate in 50 years in January. Yellen said that we must now transition to sustainable growth and how now the goal is to moderate inflation. She noted that Congress passed three transformational laws: IIJA, CHIPS, and IRA. Yellen said that the Administration wants to work with Congress to effectively impact these laws and they are already seeing the success of these laws. She noted that the budget would be paid for by new taxes and looked forward to implementing the global tax agreement. Yellen noted their proposal to expand the CTC and EITC. She pointed to how the budget would reduce the deficit and then emphasized that Congress must raise or suspend the debt limit.

Member Questions

Chair Wyden (D-OR) said that it is critical that Congress takes steps to ensure the full faith and credit of the US. He noted that the House Ways and Means Republicans passed a bill on payment prioritization by the Treasury and asked Yellen if the federal government has the technical capacity to prioritize some payments over others. Yellen said that the government makes millions of payments every day and their system is not designed to pick and choose which payments to make. She said that this is a dangerous idea that has not been tried before. Wyden asked if the federal government can meet some but not all obligations, is that not a default. Yellen said that failing to pay bills is what she considers a default and the US has always paid its bills on time and this should continue. Wyden appreciated this and said that he is focused on this because this is explicitly within their jurisdiction. He then turned to the double standard with regard to tax enforcement, saying that it is too easy for the wealthy to get off easy. Wyden noted that the first bill out of the gate in the House was for tax cheats and tax dodging corporations. He asked Yellen, if Republicans had their way to repeal IRS funding, what would that do to the agency's ability to ensure those at the top pay their fair share. Yellen said that the wealthy would skip out on taxes that they owe and this would not be fair to everyday Americans. Wyden then discussed improvements to taxpayer services, saying that it had improved recently. He asked Yellen what would happen to taxpayer services if this IRS funding from the IRA was repealed. Yellen said it would lead to worse customer service for taxpayers.

Ranking Member Crapo (R-ID) wanted to start with the full faith and credit issue and was in agreement with Wyden on protecting this. He said that the problem that Republicans see is that it's all tax and spend increases and we must stop trying to solve the problem with more taxes and spending. Crapo said that the President has refused to negotiate with Republicans on fiscal

restraint and emphasized that they must pay attention to this issue and put fiscal restraint in place. He asked if Yellen would commit to at least negotiating with Republicans on this. Yellen said that the President has indicated that it is important to have a sustainable and responsible fiscal path and he has included ideas in the budget on how to grow the economy while also cutting deficits. She said that this cannot be a condition for raising the debt ceiling and said that putting the full faith and credit of the US on the line is not acceptable. Crapo understood that Yellen was willing to discuss the budget, but not fiscal restraint. Yellen said that the President welcomes discussions on fiscal policy. Crapo turned to SVB and asked if they could agree that the issue here in terms of risk is liquidity risk in the system and that SVB had a liquidity risk issue. Yellen said that there was a run on the bank and they had a high reliance on uninsured deposits, and then there was a run and the bank had to be closed. She said that there was a liquidity risk in this situation and there will be a careful look at what occurred at the bank and what initiated this problem. Yellen said the bank had to close because it could not meet deposit withdrawal requests. Crapo attributed part of this to interest rate hikes and inflation and asked if he was wrong. Yellen said that the bank had to sell assets that it wanted to hold to maturity and due to increased interest rates, they had lost market value. Crapo said that they are on the same page on this then and then asked about getting a private buyer. He said that the solution would have been to get a private buyer to protect taxpayers, calm the markets, and prevent potential assessments from being inappropriately levied against community banks. Crapo pointed to reports that FDIC agents may have slow walked these negotiations and asked if these reports are accurate. Yellen said that this is something that is a question for the FDIC instead of her and she knows that the FDIC looked for buyers and that merger and acquisition was something the FDIC was open to resolve the institutions. Crapo then turned to the OECD agreement and said that the Treasury is pushing for Congress to approve this and tax US profits that would conflict with US tax treaties. Yellen said that 137 countries signed on to the OECD agreement to stop a race to the bottom. Crapo had concerns about the Greenbook and asked her to respond promptly to QFRs.

Sen. Grassley (R-IA) asked if the OECD agreement is in violation of other tax treaties. Yellen said no, this is something that the OECD considered carefully. Grassley disagreed and then turned to her role on the Social Security Board of Trustees. He asked if Congress can expect to see a proposal from the President on shoring up social security. Yellen said that Biden stands ready to work with Congress on this and he has already made specific proposals on Medicare. Grassley assumed that they were sincere on this and turned to a conversation he had with Yellen in June 2021 on Biden's fiscal policies and inflation. He said that Yellen said interest rates going up would be positive for society and the Fed and asked if she still saw inflation driven interest hikes as a plus for society. Yellen said that high inflation is the number one economic problem and it is the President's top priority. She said that there are many factors that have contributed to high inflation and the President is doing all he can through the IRA, lowering the cost of prescription drugs, and more. Grassley said that what she says about the IRA reducing inflation, the CBO said that it increased inflation.

Sen. Cardin (D-MD) wanted to ask questions about areas where there is bipartisan support. He pointed to affordable housing and how we have fallen behind in this area. Cardin pointed to how the budget includes making the NMTC permanent and he thought this would be great for private investment. He also pointed to LIHTC and NHIA. He said that these are bipartisan bills that they can move and questioned if they could get to the finish line here. Cardin asked if they would have cooperation from Yellen to move a housing tax credit bill. Yellen agreed and said that the US has a housing supply gap, and we need initiatives to make rents more affordable and home ownership more attainable. She said that the NMTC, LIHTC, and NHIA are all important initiatives and she looked forward to working with Congress on this. Cardin moved on to SECURE 2.0 and asked if she is focused on helping to implement this law as soon as possible and as smoothly as possible. Yellen replied absolutely, saying that there are many complex provisions that require detailed analysis to provide public guidance and regulations. Cardin noted that there is also bipartisan support for improving service at the IRS and asked if there was continued progress here due to funds from the IRA. Yellen said yes, this is part of the IRS strategic operating plan, and their performance has improved. Cardin then had questions on Section 179D allocations and mitigating the impact of the R&D changes in the TCJA, saying how its impacting the SBIR program and small businesses. (QFRs)

Chairman Wyden (D-OR) said that the Committee is really going to dig in on housing.

Sen. Cornyn (R-TX) noted how Yellen and Powell previously said that inflation was transitory. He said that inflation has increased rapidly and the IRA added to our debt and poured gasoline on the inflation fire. Cornyn said that this brings him to the failure of SVB and how some say that this is an example of mismanagement during inflation and high interest and others have asked where the banking regulators were and if they were too focused on climate and other social engineering goals. Cornyn thought that these were all fair points, but the US needs to get its fiscal house in order and that the Administration is not interested in this. He said that the President's Budget makes this clear, adding that it does not deal with impending disasters like the increasing national debt and interest payments on the debt. Cornyn said that Americans are not taxed too little, the government spends too much. He pointed to the \$80 billion funding for the IRS without any plan for implementation and mentioned how now they want even more for the IRS, which will mean more audits and more red tape. Cornyn said that the budget misses the mark.

Sen. Cassidy (R-LA) asked if the President is aware that when Social Security goes broke in nine years, there will be a 24% cut in benefits for current recipients. Yellen thought this was right, but the President wants to strengthen Social Security. Cassidy said of the taxes that he has proposed, none of it goes to shore up Social Security. He asked if the President knows anyone reliant on Social Security. Yellen was sure that he knows many people reliant on this. Cassidy said that a bipartisan group of senators has been trying to meet with the President and he has not

met with them. He asked what the tax rate would have to be on the top 2% of Americans to address all the issues that Biden wants to address with these taxes and asked if this was realistic. Yellen knew that Biden put many proposals on the table to raise substantial revenues. Cassidy said that none of this goes to Social Security and thought this was worrisome. Yellen said that the President is committed to protecting these seniors who are reliant on Social Security. Cassidy asked about the impact on the economy if the debt to GDP ratio was doubled. Yellen said it would raise net interest costs and have a negative impact. Cassidy said that this is a situation where the President has not proposed a single plan and the option is a 24% cut to benefits or doubling our debt to GDP ratio. Yellen said that the President is committed to Social Security and stands ready to work with Congress. Cassidy did not think this was true.

Chairman Wyden (D-OR) cautioned that accusing witnesses of lying was over the line.

Sen. Carper (D-DE) noted the passage of the IRA as a great achievement. He pointed to the clean energy tax incentives and said that they would help us achieve our climate goals and create jobs in the US. Carper asked how the Treasury is working to increase awareness of these new clean energy incentives and make it easy for taxpayers to understand their eligibility for these credits. Yellen said that this is a top priority for the Treasury, and they need to write numerous regulations to implement the IRA programs, from EVs to advanced energy projects. Carper noted the improved customer service at the IRS due to increased IRS funding and then asked how policymakers should evaluate the success of these investments and what outcomes the American people can expect. Yellen pointed to the metric of customer service, what percent of phone calls are answered, and the speed of refunds.

Sen. Brown (D-OH) thanked Yellen for her work this weekend and said that he spoke to small businesses in Ohio that were worried about making payroll. He said that bank failures are an important reminder about the importance of safeguards and pointed to how the railroad lobbyists lobbied for weaker standards resulting in the disaster in East Palestine. Brown pointed to how bank lobbyists do the same thing and pointed to S. 2155. He noted his letter to her and other regulators urging them to examine guardrails to ensure this does not happen again. Brown turned to the new domestic tax credits for the solar industry and asked how they would ensure that China does not benefit without creating a domestic supply chain. Yellen said that the law guarantees this and they are working on guidance on this. Brown said that Ohio has one of the biggest solar manufacturers in North America. He then brought up the CTC and said that Republicans make up reasons to oppose this. Brown asked if paid tax preparers had to demonstrate a bare minimum level of expertise, do you think we would see fewer errors with the ITC and CTC, and asked if Congress should give the IRS this authority. Yellen said yes, paid preparers undermine taxpayers and their confidence in the system. She thought that the IRS should be able to oversee paid preparers which would help protect taxpayers. Brown then asked about the debt limit, saying that Republicans put China and Wall Street at the front of the line

with payment prioritization. He asked who would be at the front of the line, China or American seniors. Yellen said if they were prioritized then China would get paid ahead of them, adding that not paying any bills is essentially default. She said that credit rating agencies like Fitch have said that failure to pay any bills will put the US credit rating into question. Yellen added that it is a recipe for economic and financial catastrophe to think we can pay some bills and not all of them. Brown said that debt prioritization sounds like Sen. Scott's privatization of Medicare and Social security.

Chairman Wyden (D-OR) said that his constituents agreed on payment prioritization concerns.

Sen. Bennet (D-CO) thought they could close the gap on the deficit and pointed out that we need to recognize that we have this problem because of the Bush and Trump tax cuts. He then turned to the CTC and how it works. Bennet noted the banking issue before them at the moment and how marijuana has been legal in Colorado for years, but marijuana businesses are frozen out of the banking system. He said that these businesses have to operate in a situation where they have nowhere to put their cash. Bennet noted that SVB failed and did not acknowledge that their balance sheet tripled and that they were concentrated in a sector where it ebbs and flows. He thought that Powell was not secretive about interest rates and said that the bank got this through their audit board and the regulators. Bennet said that what they were doing was not prudentially sound. He then turned to the Signature Bank failure and noted how one fifth of its deposits came from crypto, not marijuana, and questioned why they were not allowed to do anything with marijuana but can with something as volatile as crypto. Bennet said that crypto assets collapse and asked Yellen what questions come to mind when she sees that a bank has failed and sees that 20% of what the bank was relying on was crypto, which he said is less stable than the marijuana industry. Yellen said that in the case of marijuana, it is against federal law, which prevents them from accessing banking services. She added that the regulators need to look at the problems that the two banks who failed faced and they need to ensure that banks manage their risk so this does not happen again.

Sen. Warner (D-VA) said that the Fed, Treasury, and FDIC moved very effectively and the consequences could have been disastrous if they did not shore up the system. He echoed Bennet that traditional bank regulation should have caught this interest rate mismatch. Warner said that we have seen the first social media, internet based bank run. He said that in a previous bank run, \$16 billion came out of a bank over a 10 day period and he was not sure any regulatory framework could have stopped this SVB bank run. Warner pointed to *It's a Wonderful Life* and asked who was playing the role of Mr. Potter. He thought there were bad actors in the venture capital community and that the fact that they bear no responsibility and the claim to be libertarians is a bit repugnant. Warner asked for her initial thoughts. Yellen said that no matter how strong liquidity and supervision is, if there is a bank run spurred by social media, a bank can be put in danger of failing. She said that this can be a threat to banks and one of the reasons they

intervened with the systemic risk exception is due to the risk of contagion and other banks falling prey to the same kinds of runs. She said that this was a bank with a high ratio of uninsured depositors and the liquidity needs of a bank like this should be thought about. Warner said that the idea that there is no responsibility for those shouting ‘fire’ in a crowded theater presents a problem.

Sen. Thune (R-SD) asked Yellen if she considered the pandemic to be over. Yellen said it is diminished, but still impacts the economy. Thune said that most people think it is over and asked how much of her workforce is in the office. Yellen said that they are back to business as usual, but they have some work from home. Thune was curious to know how much of the banking regulators are back in the office and said that if your job is to supervise banks, you have to be in the office. Thune asked if she would keep the Committee updated on the investigations into SVB. Yellen said that they would, but much of this would be done by the FDIC. Thune then turned to how Yellen said that she would update the Committee on the ProPublica report of the taxpayer data leak. He also asked about the actions of the Administration to shore up SVB and how no losses would be borne by the taxpayer. Thune asked if she stood by this. Yellen said yes. Thune hoped his colleagues would work with him to hold the Treasury to this. He then addressed the requested increase in IRS funding and asked when they might see a plan for this. Yellen said that this is almost complete and they should have this in the near future. Thune then asked about how much of the \$80 billion is directed to enforcement and if any of this will increase audits on middle income taxpayers. Yellen said that they have committed that there will be no increase in audits on those making less than \$400,000. She added that this funding will also lower the deficit.

Sen. Lankford (R-OK) noted various tax-related priorities for him and how the IRS has delayed the \$600 Venmo reporting. He said that new treaties are popping up with regard to the IRA, but he did not have time to address this. Lankford asked if all the deposits in every community bank in Oklahoma be fully insured now, essentially the same treatment as SVB and Signature Bank. She said that a bank only gets this treatment if a supermajority of the Fed, FDIC Board, she and the President decide that this needs to be done to prevent systemic risk. Lankford asked what her plan was to stop community bank deposits from flowing to big banks. Yellen said that this is not something they are encouraging. Lankford said that this is happening. Yellen said that this is happening because depositors are concerned about the bank failures. Lankford said that this is happening because you are fully insured at a big bank. Yellen said that no, you are not fully insured. Lankford said that you were fully insured at Signature Bank though. Lankford said that they took these actions to prevent contagion. Lankford then asked if there was discussion that the special assessment would only apply to the larger banks or was it always assumed that the special assessment would cover every bank including rural banks in Oklahoma. Yellen said that she was not sure of all the rules around this and that this is for the FDIC to determine. Lankford then turned to Chinese companies banking with SVB and asked if they would be made whole

based on assessments on Oklahoma banks. Yellen said that uninsured investors [sic] would be insured, but she did not think that foreign depositors would be discriminated against. Lankford said that Oklahomans will have to pay higher fees for these assessments. Yellen said that it would be worse if the banking system collapsed.

Sen. Cortez Masto (D-NV) brought up tax credits for renewable energy investments in low income communities and how Treasury's guidance says that this will only be considered in limited application windows which concerned her. She asked Yellen to share her plan to revise this guidance to meet the intent of Congress. Yellen said that they are working 24/7 on this guidance to implement the various tax credits in the IRA and they have no higher priority at Treasury. Cortez Masto said she supports manufacturing of clean energy in the US and she worried about tariffs limiting our ability to grow our clean energy through solar. Yellen said that there are incentives in the IRA to bring the manufacturing of solar panels to the US and they are working to get these regulations out as quickly as they can. Cortez Masto asked if it's true that the deficit has reduced in the past two years and that this new budget also works to reduce the budget. Yellen said that this is correct. Cortez Masto said that the national debt was incurred by Republican and Democratic administrations. Yellen agreed.

Sen. Warren (D-MA) said that on Friday, the US faced the second biggest bank failure in history, and regulators took emergency measures. She was grateful for the quick action, but said that we should not have even been in this situation. Warren pointed to S. 2155, which she said weakened Dodd Frank and added that Biden called on Congress and regulators to strengthen the rules for banks. She asked Yellen if she agreed with Biden. Yellen thought they needed to evaluate what happened and then strengthen rules as needed. Warren brought up stress tests, saying that they are critical tools that are designed to show banks' vulnerabilities. She pointed to how Yellen said that stress tests are forcing banks to improve their risk management and capital planning, but that she warned that we cannot be confident that there will not be another financial crisis. Warren asked Yellen if regular, rigorous stress tests help regulators spot problems on bank's balance sheets and business models. Yellen said yes, this is one of the most important and consequential improvements in supervision. Warren asked if regulators can require banks to clean up any issues early to prevent runs. Yellen said yes, but the stress tests focus on capital, not liquidity, which was an issue in these banks' runs. Warren said that if these stress tests were done right, do they just test one thing or for many different problems. Yellen said that they test for many problems, but not liquidity. Warren asked if these stress tests show that management is not doing a great job. Yellen said that this is the purpose of supervision. Yellen said that there are a lot of pieces, but in 2018, Trump's bank deregulation law created an exception to the annual, Fed-administered stress tests and let banks under \$250 billion off the hook. Warren said that enhanced liquidity requirements for banks and better capital requirements, regular resolutions, and more were weakened in 2018 and when SVB failed, this is a part, in her view, of what led to weaker regulations due to the Fed's actions. Warren also had questions for the banking

regulators but said that Congress gave the Fed a flamethrower to aim at the banking rules. She said that Powell said that they were implementing S. 2155 and Congress weakened regulations.

Sen. Johnson (R-WI) asked how much a dollar from two years ago is worth today and said that it is worth 87 cents. He asked if she knew what the inflation rate was at the start of the Biden Administration. Yellen said it was lower. Johnson pointed to massive deficit spending, high energy costs, and supply chains as the main causes of inflation. Yellen did not agree on deficit spending and said that we had an economic collapse from the pandemic. Johnson pointed to the deficits in the President's Budget. Yellen said that he really needs to look at real net interest and GDP. Johnson asked if she was concerned about people buying riskier and riskier debt. He said that we are not on a sustainable path and asked if she was concerned about honoring the promises we have made on benefits. Yellen said that the interest cost on the debt remains quite low over the 10-year horizon of the budget and that is very manageable. Johnson said that Yellen also said that inflation was transitory, which is not true. He said Democrats keep saying that they are cutting deficits, which he disagreed with. Johnson said that he keeps hearing about having the rich pay their fair share and asked how much the top 1% should pay to be considered to be paying their fair share. Yellen thought billionaires should pay rates that are not lower than what a firefighter or teacher pays.

Sen. Tillis (R-NC) said that the President's Budget assumes 4.3% inflation and asked how we do that, especially in light of SVB. Yellen said that they assume 3% inflation for 2023. Tillis asked if she still thinks this is valid. Yellen said it is coming down. Tillis then turned to Warren's comments and said that back in 2017, Yellen said that with respect to S.2155, the Fed would still be able to impose enhanced prudential standards on firms if necessary and that the bill is a move in the right direction that would be good and enable the Fed to appropriately tailor its supervision. He asked if Yellen still stood by this statement. Yellen said that she said that tailoring is appropriate and she still believes this. Tillis disagreed with Warren and said that Tarullo had to implement this bill that he publicly criticized, but he does not believe that S. 2155 had anything to do with SVB, but rather it was supervisors not being aggressive and that they had authority to increase supervision under S. 2155 if they wanted to. Tillis thought there was a supervisory or regulatory lapse, it was not S. 2155. He also had concerns about exemptions in the agreement with regard to China and said that beyond the exceptions that benefit China and state owned enterprises, the Committee has not received the data and analysis used for negotiating the deal. Tillis asked if they would get this data and analysis when this OECD provision comes before Congress. Yellen thought the analysis on Pillar II had been done. Tillis said that they would submit a QFR on this.

Sen. Blackburn (R-TN) wanted to return to the SVB issue and asked when Yellen was first notified of problems with SVB and when she alerted Congress. Yellen believed that she first found out about the troubles last Thursday. Blackburn noted that Lankford asked about DIF and

its impact on community banks and wanted Yellen to run the numbers on this and get back them. She asked Yellen if this was a step to nationalize the banking system. Yellen said no, this was to stop contagion and prevent community banks from being subject to runs. Blackburn said that she heard a lot from local leaders of the IRA and asked who is really in charge of the guidance and the timeline for releasing it. Yellen pointed to the Office of Tax Policy and they confer with many people on this. Blackburn then said that Yellen's statements on the IRA contradict themselves and asked if we can spend our way to lower inflation and debt reduction. Yellen believed that this law promotes clean energy, R&D, and investment in the US. She never said that this bill was a way to lower inflation. Blackburn then turned to the increased funding for the IRS and said that they actually answered fewer calls. She wanted clarity from Yellen on this and what the rate of calls answered and missed. Yellen said that the response rate has been between 80-90% this tax season, which is a massive improvement.

Sen. Menendez (D-NJ) said that the Fed's emergency lending facilities are predicated upon the notion that the Treasury and agency securities have no credit risk and that facility will be extending loans of up to a year using these securities as collateral, but one potential problem is that unless Congress raises the debt ceiling in the next few months, Treasury securities face the risk of default. Menendez asked, in light of events, how damaging a default would be to the banking system, especially regional banks. Yellen said that it would be devastating and Congress should not even consider doing this. Menendez said that if we are using Treasury securities to back this up, it would be catastrophic. He then asked if the debt ceiling was not raised, well before any default, it is possible that we could run the risk of seeing more runs on regional banks. Yellen said that the concern over whether Congress would meet this responsibility has provoked concern in financial markets and that was evident in 2011 when there was the downgrading of the US' credit rating previously and agreed with Menendez that this was dangerous. He asked if having the dollar as the reserve currency was important. Yellen agreed. Menendez turned to how S. 2155 lowered regulations on banks like SVB and even as the law kept these banks off the list of SIFIs, the regulators considered it to pose a systemic risk. Menendez asked if it was systemically important. Yellen said that this bank had a high proportion of uninsured deposits, which made it vulnerable to runs. Menendez said that the regulators intervened due to systemic risk, so there must have been systemic risk. Yellen said that the risk of more runs was the concern. Menendez thought laws should treat these banks as systemically important if they are. Menendez turned to C-corporations deducting local taxes and assured Yellen that the budget does not give this benefit to middle class families. Yellen said that they think Congress should address these tax uses.

Sen. Scott (R-SC) said he could spend hours talking about how much he does not like the President's Budget, pointing to how we want to impose more taxes than the CCP does. He said that the budget seeks to isolate and divide us. Scott wanted to discuss SVB and said that he knew that the bank failure was due to its management and Board. He said that it was also due to a lax

regulatory environment and the state and federal regulators failed to use their tools to regulate these institutions. Scott added that the Biden Administration's handling of the economy also contributed to its failure and that the President's budget is further evidence of tax and spend that will only exacerbate inflation which will continue to be felt by Americans. He said that the San Francisco Fed was asleep at the wheel and failed to meet basic supervisory responsibilities. Scott said regulators now plan to increase regulation on the rest of the banking industry. He said that the failure to supervise is inexcusable and he planned on holding the regulators accountable. Scott said that the Administration's 'tax and spend' reckless policies fueled inflation and will only lead to higher and higher interest rates. He asked if this Administration will acknowledge that their reckless tax and spending contributed to the challenges in households and also to challenges we are facing today with SVB. Yellen said that inflation is too high and it is a top priority for the President to bring it down. She said that many things contributed to inflation, pointing to the war in Ukraine. Scott said that there is no doubt that the pandemic was in the rearview mirror and then there was more spending on COVID, pointing to how the ARP accelerated inflation and how the Fed responded with eight rate increases, resulting in a liquidity challenge that we are now seeing.

Sen. Hassan (D-NH) wanted to follow up on how the agencies took steps to strengthen public confidence after the failure of SVB. She asked how the Treasury is measuring the success of their response, such as economic indicators. Yellen said that they are looking at indicators of the functioning and stresses in the banking system and ensuring that this risk does not spread to other banks. She added that a more general problem is that if banks are under stress, they might be reluctant to lend if they are concerned about shoring up liquidity and capital. Yellen said that this could present downside economic risk. Hassan urged her to continue communicating with Congress on this situation and then turned to tax issues. She pointed to her bipartisan bill, the *Home Energy Savings Act*, and asked how the Treasury is increasing awareness of these tax credits. Yellen said that there are critical supports for taxpayers here and they have worked with the IRS to publish plain language explanations of these credits. Hassan added that she is looking to cut red tape for online sellers with regard to 1099 tax forms with Brown and asked if the Treasury would provide an analysis of the impact of different proposals on online sellers. Yellen said yes, saying that they are working on the ARP provision with the \$600 reporting threshold for 1099s. Hassan said that they want to address this bad policy.

Sen. Young (R-IN) joined his colleagues in expressing his frustration and displeasure with how the Administration has handled the OECD Pillar II negotiations. He asked if implementing this globally would undermine the incentives to locate industry and jobs in the US. He pointed to how foreign countries would be allowed to tax US activity of US companies. Young noted that he is fighting for the R&D tax credit, which would be wiped out by Pillar II and he asked her to go back to the negotiating table on this. Young noted that Biden has promised that he will not raise taxes on those who make less than \$400,000 and pointed to how he introduced an

amendment to not raise taxes by one penny. He asked Yellen which tax rates or other provisions from TCJA must be extended in order to not violate President Biden's pledge of not increasing taxes on those who make less than \$400,000. Yellen said that there are aspects of TCJA that if they sunset then it would impact these households and the President has pledged this, so he stands ready to work with Congress. Young asked her to provide the specific provisions of TCJA that would need to be extended. Yellen did not have them because it is complex.

Chairman Wyden (D-OR) wanted to work with Young on updates to the tax laws

Sen. Daines (R-MT) said that the President's Budget includes trillions in new taxes and said that 95% of businesses are pass-throughs and the budget seeks shadow tax hikes on these businesses. He said he would introduce legislation on this and asked if she would commit to making the 199A deduction permanent. Yellen reiterated the President's pledge, but could not give other promises. Daines turned to Pillar II of the OECD proposal and said it would benefit state-owned enterprises. He asked why she supported something that would allow China to tax US companies if they fall below the tax thresholds. Yellen said that the agreement includes an underpayments rule where other countries can use their rights to impose taxes on other countries that do not abide by the 15% tax. She said that the US can impose a top up tax to ensure that those revenues end up in the US Treasury instead of in a foreign country. Daines noted the CTC provisions in TCJA and said that the budget proposes increasing the CTC. However, he said that it does not seek to make this permanent. He asked Yellen if Biden believes that the CTC should be made permanent for \$3,600 and if they would be willing to eliminate SALT in exchange. Yellen said that Biden is supportive of CTC and proposes to extend it for several years.

Sen. Cantwell (D-WA) thanked Yellen for her work over the weekend and said that we need to let innovation unfold, but people need to get financing. She pointed to TwinStrand BioSciences in Washington, which is working to fight cancer and how their leader did not think about how they would ever have to question their reliance on a bank. Cantwell said that what happened with SVB should never have happened and was concerned about the impact on small businesses. She asked where we go from here and said that there was concentration in SVB because these businesses had to have all their holdings there. Cantwell asked if they should get rid of these bank requirements that they need to hold all their funds in the bank to get certain terms. Yellen was not aware of this, but said that small businesses should be confident that their banks are safe and that they can do business with them which is why they stepped in to intervene with SVB. Yellen said that the banking system is sound and resilient and they want to ensure that this is not undermined due to SVB. She said that they wanted to prevent contagion. Cantwell said that it is basically an affirmative covenant that they maintain all creditors as depositors. She thought this should be looked at and asked what about Glass-Steagall and asked why we got rid of this commingling of deposits and investment banking. She said that continuing to protect depositors and having a system where people can take risk and suffer loss is okay, but that is not what we

have and that we have such a commingled system now. She asked what Yellen thinks about relooking at Glass-Steagall and if the same situation would have occurred, how it occurred if we had not in 2000 got rid of Glass Stegall. Yellen said that they are focused on shoring up confidence in the banking system and said that they would look at whether regulatory or supervisory changes are necessary. Cantwell did not want to see banking that understands startups to go away, but she thought the commingling of these things did not help access to capital. Yellen said these banks were not investment banks.

Chairman Wyden (D-OR) shared Cantwell's views on this.

Whitehouse (D-RI) turned to Yellen's comments at the Climate-related Financial Risk Advisory Committee (CFRAC) on the impact of climate on asset values and how this could cascade through the financial system. He pointed to how she talked about insurers pulling back from high risk areas and said that he had hearings on this in the Budget Committee with regard to wildfires and coastal flooding. Whitehouse said that this could spill over into the rest of the financial system and said that the coastal property value risk could happen at the same time as wildfire risk. He said that we all know that shocks, collapses, and panics are not easy to predict and asked Yellen how serious to the US economy these shocks could be. Yellen did not know how to quantify this, but said that these are serious risks and the FSOC is analyzing these risks and acknowledging that they pose a systemic threat. She said that FHFA and the banking regulators are taking steps to analyze these risks and their impact on financial institutions. Whitehouse said that systemic risk sounds like a mild term, but it refers to devastating stuff. Yellen agreed. Whitehouse then flagged a letter he and others signed to the acting director of FinCEN regarding their concerns about the development of the beneficial ownership rule and how it was far less than what the statutory language directed regarding the access rule, verification standard, and court order requirements. He hoped Yellen would take this to her team and look at where they're going on this.

Sen. Casey (D-PA) started by noting the phone call return rate at the IRS, saying it had gone up significantly. He then turned to energy communities and said that they live in a region with several hard coal counties. Casey pointed to how coal employment has dropped and private sector employment in Appalachia coal counties has been flat. He pointed to how he pushed for clean energy projects in these regions, but the Treasury has not published guidance on how companies can claim these credits or what areas qualify. Casey asked Yellen to share when they can expect finalized rules and guidance. Yellen said that this was a really important provision and they are working around the clock on this. Casey then wanted to submit a QFR on how corporations are given tax breaks for union busting activities and in the 2017 tax bill, provisions that were pro-union were taken away. He said that he has legislation to address this.

Chairman Wyden (D-OR) shared Casey's views on this and designated his question on clean energy projects as a super priority. He closed by talking about the Republican tax amendments, saying that they define taxable income so as to give billionaires a free pass on taxes, which is what the difference is. He added that Democrats feel strongly about protecting the nurses, firefighters, and business people. Wyden said it is about how these amendments define taxable income and looked forward to working with Yellen in the days ahead.