CARES Act Oversight of Treasury and the Federal Reserve: Building a Resilient Economy

Senate Committee on Banking, Housing, and Urban Affairs

November 30, 2021

**Opening Statements:**

**Chairman Brown (D-OH)** took a moment to thank workers who were unable to take the Thanksgiving holiday saying that these are the people that make the economy work and the people at the Treasury and Fed need to keep in mind. Brown pointed out the low unemployment level and how workers are finally receiving increased wages. He continued that corporate greed has hurt workers for too long and profited only the top executives. Brown called out Wall Street banks for raking in record profits despite the country being in the midst of the pandemic and believed that we need to rethink the system. He touched on the House passed Build Back Better Act (BBBA) and how the Senate must act on this as well. Brown talked about the benefits the bipartisan infrastructure bill will bring and suggested that corporations could also take a slightly smaller pay bump instead of raising costs for consumers. He said that corporations get away with this because they have so much power in our economy. Brown mentioned the amount of women leaving the workforce during the pandemic to be full-time caregivers and homeschool teachers as well as the impact that the pandemic has had on minorities in the workforce. He said he would continue to work with Powell and Vice Chair Brainard along with the other nominees.

**Ranking Member Toomey (R-PA)** congratulated Powell on his renomination and stated that, despite their ideological differences, Toomey looked forward to supporting his renomination. He was concerned about who else President Biden would nominate to the Fed Board beyond Powell and mentioned other radical Biden nominees, specifically Omarova. Toomey talked about price hikes everywhere and how inflation is growing faster than wages. He stated that the Fed has continued its emergency powers and was happy to hear about the Fed tapering, although he thought this was long-past due. Toomey said the Fed should have started tapering a year ago and how Congress is not doing anything to curb inflation, just blaming corporations. He described this as a fib crafted by the Democrats and figured that it is no wonder that Americans are seeing higher prices. Toomey believed that the Biden Administration’s plans will only expand the welfare state and socialize the middle-class. He hoped Democrats would reconsider their efforts of misguided spending.

**Witness Testimony:**

[**The Honorable Janet Yellen**](https://www.banking.senate.gov/imo/media/doc/Yellen%20Testimony%2011-30-21.pdf)**, *Secretary, Department of the Treasury,*** stated that November has been a significant month for the economy and how Congress has been a large part of this. She was happy with the passage of the bipartisan infrastructure bill on November 5th and noted how this day was also significant due to the jobs report that came out. Yellen stated that our economy is on track and while we are on track, she understood that the pandemic is still current and mentioned the new Omicron variant. She emphasized the importance of getting vaccinated. Yellen talked about the bold relief measures Congress passed throughout the pandemic that has made the difference in people’s lives. She talked about the Treasury's responsibility of allocating funds and gave an update on the Child Tax Credit (CTC), the ERAP (Emergency Rental Assistance Program), and the State Small Business Credit Initiative (SSBCI). Yellen emphasized the need for America to pay its bills, addressing the debt limit, and stated that defaulting on our debt would eliminate all progress the economy has made. She applauded the House for passing the BBBA and encouraged the Senate to pass it as well.

[**The Honorable Jerome Powell**](https://www.banking.senate.gov/imo/media/doc/Powell%20Testimony%2011-30-21.pdf)**, *Chairman, Board of Governors of the Federal Reserve System,*** remarked that the economy has continued to strengthen, despite a slow-down during the summer due to the Delta variant. He touched on recent data from September and October, noting that the GDP is due to increase by 5%. Powell expected progress in the labor market to continue and acknowledged how the pandemic has not fallen equally on everyone. He touched on supply chain issues and the continued inflation saying that the Fed expects inflation to decrease over the next year. Powell reported that wages are increasing at a brisk pace and how the Fed is committed to its price stability goal. He turned to the Omicron variant and the potential risks it may cause in the supply chain and labor market. Powell underscored that everything he does is with a mind to the mission of the Fed.

**Member Questions:**

**Chairman Brown (D-OH)** thanked Yellen for her comments on the debt ceiling. He referred to a [WSJ article](https://www.wsj.com/articles/inflation-yellen-biden-price-increase-cost-shipping-supply-chain-labor-shortage-pandemic-11636934826) on big corporations profiting during the pandemic while costs for workers have been rising for years. Brown asked Yellen about her comments on how she said the BBBA and infrastructure bill will help Americans. Yellen replied that the cost of childcare, for example, will be more affordable due to subsidies included in BBBA, such as universal pre-k along with the CTC. She believed that this will help families facing crushing burdens and explained how the money from the CTC will help keep roofs over families heads and put food on the table. On caring for the elderly, Yellen explained that BBBA includes money for caring for the disabled, subsidies in the Pell Grant, money for workforce training and also addresses the cost of prescription drugs. All of these, she said, will help Americans pay their bills. Brown turned to Powell and asked him if Powell still believes that inflation is still caused by certain sectors and as the pandemic subsides, so will prices. Powell answered that price increases have spread more broadly in recent months. Brown mentioned stablecoins and how they are managed by opaque companies and asked if it is risky to let control over our money be in the hands of companies rather than the American people. Yellen believed that stablecoins can provide benefits but only if they are correctly regulated. She talked about the President’s Working Group, which she is the chair of, and how they have called upon Congress to produce a regulatory framework for stablecoins. Powell agreed with her.

**Ranking Member Toomey (R-PA)** reminded the Committee that Democrats can raise the debt limit whenever they want, and that Democrats are not raising the debt limit alone because they do not want to be held accountable for their spending. He moved to the inflation target of 2% and how inflation has been above target and accelerating despite the Fed continuing its emergency powers. Toomey asked how long the inflation will have to run above target until the Fed decides it is not ‘transitory’. Powell agreed that inflation has run above the target but thought we should retire the word ‘transitory’ and actually explain what this inflation means. Toomey talked about the Fed’s purchasing of mortgage-backed securities (MBS) and urged reconsidering the pace of tapering. He moved to the President’s Working Group and how the recommendation says stablecoins will be regulated by depository institutions. Toomey asked why all stablecoins have to be regulated the same way. Yellen replied that all stablecoins have the potential to be used as a means of payment regardless of how they are used when introduced and the structure that stablecoins adhere to, which is a stable value relative to a fiat currency, is what depository institutions guarantee. Toomey thought this should be thought through and noted that Pillar One of Biden’s international tax agreement will be the biggest tax agreement in years and said there is no precedent for bypassing the Senate’s treaty powers. He thought that Pillar One requires Senate approval by ⅔ vote.

**Sen. Reed (D-RI)** congratulated Powell on his renomination but stated that he was troubled by the falling off of certain people’s participation in the labor market and asked how we can improve this. Powell answered that they thought there would be an increase in those who have fallen off rejoining the labor market when schools reopened and unemployment insurance ended, but this was not the case. He attributed the lack of improvement to fear of the pandemic closing schools again and said that labor participation is a lagging factor of the economy. Reed thanked Yellen for increased flexibility in ERAP saying they have been helpful to Rhode Island and mentioned the homeless population specifically. He asked how ERAP funds can be used for the homeless. Yellen answered that ERAP funds can be used to provide housing stability services to the homeless to help them find stable shelter. She added that the Treasury has built in to ERAP that a household has to have a household obligation and it created an opportunity for ERA grantees to pay a rental obligation with a letter of intent. She thought this would help the homeless population. Reed turned to the Homeowner Assistance Fund (HAF) and urged her to accelerate this to get the funds out.

**Sen. Crapo (R-ID)** asked Yellen to explain her comments on the debt limit timeline. Yellen clarified saying that she has a high degree of confidence that the Treasury can finance the government through December 15th, but there are scenarios where the Treasury cannot fund the government past that date. She noted that on December 15th, the Treasury will invest funds from the infrastructure bill and there is not no way the Treasury cannot go past December 15th, but there is cash uncertainty beyond that date. Crapo turned to Powell on inflation and how the administration is still supporting $2 trillion in spending for BBBA. He said most of this spending does not ameliorate inflation and worried that the administration is not taking the threat of inflation seriously. He asked Powell if he viewed inflation as a threat and how he planned to address it. Powell thought that the threat of persistent inflation has grown but still believed that it will lower next year. He thought that the Fed has adapted its policy and will use its tools to ensure that higher inflation does not become entrenched. Powell saw inflation existing through the middle of next year and acknowledged that that date has been pushed out due to supply chain issues. Crapo asked if congressional spending would add to this inflationary pressure. Powell could not comment on this. Crapo asked when the Senate can expect the Fed’s report on digital currency and if there are reasons for the delay. Powell replied soon, in the coming weeks, and it has taken longer than expected because they want to get it right.

**Sen. Warner (D-VA)** thought that the Fed’s activities during the pandemic helped prevent a complete economic meltdown and while Congress had spent nearly $5 trillion, history will treat that spending well. He thought that we are seeing our economy come back and that the Fed signaled a shift to tapering bond purchases. Warner asked which factors lead to this decision and how long it will take to wind down these purchases. Powell replied that the most recent data from the November FOMC meeting signaled growth in the coming months and at this point, the economy is strong, so it is appropriate to announce tapering. He expected to discuss this at the next FOMC meeting. Warner was surprised that, coming back in September, we did not see more labor participation and believed that tapering can serve like an insurance policy and hoped that Powell would move more aggressively with tapering. He asked what markers the Fed will look at with the new variants. Powell replied that he is listening to the medical experts and that it comes down to severity, effectiveness of the current vaccines, and transmissibility. Powell said that they will know this in about 10 days and by the end of the month. He added that this is a risk but not incorporated into their actions yet. Warner talked about investments in CDFIs that Mnuchin and now Yellen are implementing and asked what else we can do to shore up CDFIs and securitization of CDFI debt. Yellen was glad to work with Warner on possibilities for this and noted that the investments in CDFIs and MDIs have been historic. Powell said he would work with Warner as well.

**Sen. Rounds (R-SD)** stated that he would support Powell’s renomination. In September, he asked Yellen when she would say enough is enough when it comes to our debt and the deficit. Rounds asked if now is the time to sound the alarm on financing our national debt. Yellen answered that she would not want to sound alarm bells and stated that the administration’s fiscal plans for BBBA and infrastructure will not worsen the debt or deficit path. She believed it was a fiscally responsible plan. Rounds stated that we have $29 trillion plus dollars that will be refinanced and possibly refinanced at a higher rate. He asked if this is a reasonable expectation. Yellen replied that the reports assumed that interest rates would move up over the 10-year horizon and even then, given the expectation that real interest rates will remain low for important structural reasons, we have seen savings at the global level and the interest burden on the debt remains sustainable. Rounds turned to Powell saying that he has been consistent on his statements on the Fed’s goals and asked if the Fed takes into account national debt servicing and US creditworthiness when it considers interest rate decisions. Powell replied that the cost of programs go into the Fed model and that there is no credit risk baked into Treasuries at this point and he does not expect it to be. Rounds asked if Powell projects that Treasuries will rise over the next 18 months. Powell said that the Fed has forecasted this for 10 years but has not happened yet. For many years, Powell said we have had a lower inflation trend, despite what we are experiencing now.

**Sen. Menendez (D-NJ)** talked about the childcare provisions in the House version of the BBBA and asked if childcare subsidies would help improve labor force participation. Yellen replied yes and reported that the US has fallen behind with women in the workforce and that this is largely due to the lack of affordability of childcare. She believed the provisions in the BBBA will improve this. Menendez agreed with Yellen and looked forward to the effect that the childcare provisions will have on minority families. He turned to Powell noting a letter Menendez wrote to him on finding diverse candidates for the open president positions at the Dallas and Atlanta Fed. He asked for an update on this search. Powell replied that the search is starting now, and it will involve extensive outreach to all communities. He believed that it is essential that diverse candidates be identified. Menendez highlighted the diversity problem at the Fed and at its highest level. Menendez turned to Yellen on the same question and asked what she has done to empower diversity. Yellen replied that the Treasury is looking for ways to diversify internally and is reviewing its current programs to see how they can be changed to improve what they do for diversity and minority communities.

**Sen. Kennedy (R-LA)** congratulated Powell on his renomination and thought it was fair to say that the experts who have been advising Powell about the future rate of inflation have the same credibility as those late-night psychic hotlines on TV. He asked if the Fed has looked at accelerating its tapering. Powell replied that the Fed did not predict the supply side problems and they missed this when forecasting inflation. On tapering, the Fed has seen elevated inflation pressures and strong labor market data along with strong spending data, so the Fed has found it appropriate to discuss whether or not to wrap up purchases a few weeks earlier. Kennedy turned to Yellen, pointing out that, in his opinion, there is no one who believes that the infrastructure and BBBA bills will not incur substantial debt. He asked how much debt is too much and at what point the administration will say enough is enough in terms of borrowing. Yellen disagreed with his assessment of BBBA saying that it is fully paid for and believed that it is important that it is fully paid for. She continued that no single metric can measure debt and that debt to GDP ratios of 100 or more tend to be associated with significant problems. While we are over 100, she stated that we are in special times and that we need to look at the interest burden of the debt which is currently negative. Kennedy referred to an interview Yellen did in September 2019 and quoted what she said on the debt path and how it is not sustainable. He asked why these statements are not true today, especially in the context of higher debt and BBBA. Yellen repeated that CBO has deemed BBBA completely paid for and eventually we will have trouble funding entitlements.

**Sen. Van Hollen (D-MD)** congratulated Powell on his renomination and picked up where Kennedy left off by pointing to how the Committee was talking about Republican tax plans and the CBO score three years ago. He highlighted that Republicans did not care about adding $2 trillion to the debt at that time and repeated how BBBA will be paid for. He asked Yellen to talk about the 15% global minimum rate to prevent a race to the bottom. Yellen explained that the pattern across the globe is that the global tax rate has been trending down and corporations have won from this by paying low tax rates for being in the US. She continued that corporate tax rates are 1% of the GDP as a consequence of this and pointed to countries all agreeing on the 15% rate. Yellen wanted to tax companies at a reasonable rate which is what the 15% minimum tax achieves. She pointed out that the US is the only country with a minimum tax and that differential encourages multinational companies to shift profits abroad, so raising the minimum tax narrows that differential. Van Hollen thought this was common sense and moved on to discuss how BBBA provisions like childcare and CTC will help families.

**Sen. Tillis (R-NC)** supported Powell’s renomination. He asked about the LIBOR transition and asked if they both agreed that Congress needs to provide a solution to affect the LIBOR transfer, possibly using SOFR for legacy contracts, but optionality moving forward. Powell and Yellen replied yes. Tillis continued by discussing upward inflation and wanted to understand Powell’s perspective on inflation and how the Fed calculates inflation. He asked if the Federal government provided subsidies to every renter so they pay the same price as 12 months prior, even though the sticker price has gone up, does that mean that the Fed would see no inflation in rents. Powell was not sure of the answer and Yellen agreed with Powell’s comments. Tillis talked about COVID and the multiple variants and worried that the administration had a policy of removing the virus completely despite it probably going to be around forever. He asked at what point we get to a more normal execution of Fed policy and get away from the Fed reacting based on what we had to do last year when COVID was newer. Powell stated that the Fed is focused on adapting its policy as we move along and agreed that we are going to see the disease around for a long time and thought the economic impacts would diminish. Tillis entered into the record a Washington Post fact check on BBBA being inflationary and stated that there are a lot of goals in BBBA but did not think they would be sustainable. He agreed with Kennedy that we have already made other promises to the American people and if we continue to add to the debt and deficit, these promises will be broken.

**Sen. Warren (D-MA)** stated that in the 2000s, the Fed failed to regulate Wall Street and how this cost the American people. She emphasized the need for regulation and asked if Powell would bring matters from the Vice Chair for Supervision to the board for full consideration, even if it was a regulatory action that he disagreed with. Powell clarified that the Vice Chair for Supervision sets the regulatory and supervisory agenda, he would have a constructive relationship with them, and he did not see himself intervening in that due to the law. Warren asked if the Vice Chair of Supervision undoes a rule that Quarles implemented and Powell disagreed with this, what it means to Powell for him to defer. Powell explained that every Vice Chair for Supervision has to convince other members of the board and he expected that to continue. Warren questioned how much Powell would respect the authority of the Vice Chair. Powell thought that a person who arrives nominated by the President and approved by the Senate is entitled to a degree of deference, but they still need to convince the board to vote for their proposals. Warren asked if Powell would support implementing new capital requirements for banks exposed to climate risk if this was proposed by the new Vice Chair for Supervision. Powell said he would have to see more specifics. Warren said that new and emerging threats to our financial market continue to grow and used climate, cryptocurrency, nonbank financial institutions (i.e. BlackRock is not designated as a SIFI), loan obligations, and COVID variants as examples. She believed this is why the Fed needs to increase regulation.

**Sen. Hagerty (R-TN)** congratulated Powell on his renomination and looked forward to the Fed’s report on the digital dollar. He turned to Yellen stating that everything Biden has done has helped Russia and Putin and how we are seeing Russia build up troops on the Ukraine border. Hagerty wanted to ensure that Yellen has all the power she needs to impose sanctions on Russia. Yellen stated that the Treasury has imposed sanctions on Russia and how an EO from April expanded Treasury’s authority to impose sanctions. Hagerty was curious what the Biden Administration’s strategy is to address the Ukraine border. Yellen replied that there are many discussions happening around this. Hagerty moved to the ProPublica leak and how Yellen has testified that this is illegal so given this, he asked if leakers have been identified. Yellen replied that the FBI, DOJ, and the Treasury are looking into this, and the investigations are moving forward. Yellen said that they do not have information that it was the IRS at the moment and did not appreciate Hagerty assuming that the IRS is to blame. Yellen defended that the IRS has been starved of resources and pointed out the existing tax gap.

**Sen. Cortez Masto (D-NV)** congratulated Powell on his renomination and thanked the staff at the Treasury and the Fed for all their hard work during the pandemic. She talked about the supply chain disruptions and asked Yellen about Biden’s plan to help supply chain disruptions and asked where the administration’s efforts have been successful and what some ‘sticking points’ may be next year. Yellen replied that the administration created a Supply Chain Disruption Task Force in June and it has been working broadly to see where the administration can effectively help. She believed that we are seeing progress at the ports, specifically in Los Angeles and Long Beach, and how the ports have agreed to be open 24/7. In other areas like Savannah, Georgia, the administration has looked at creating different spots so boats can go more places. Cortez Masto closed by expressing her support for the Supply Chain Resiliency Act to help with this.

**Sen. Scott (R-SC)** emphasized that elections have consequences and found it hard to process what he has heard regarding believing the administration without seeing what will happen, specifically on BBBA when there is high inflation. He continued that the administration wants Americans and South Carolinians to believe that spending trillions of dollars will help the transitory inflation. Scott asked Powell if he thinks the administration understands the effects of heating the economy. Powell could not comment on what the administration thinks but acknowledged that Americans are feeling the prices of gas and food and how the Fed’s responsibility is to ensure that this inflation does not become entrenched. Scott followed up on Hagerty’s points on expanding the powers of the IRS and said that giving the IRS more power to catch tax cheats with the IRS bank reporting proposal is far-fetched at best. He asked if Yellen still supports any type of IRS reporting requirements that the administration proposed this year. Yellen replied that she still supported it and that it is important for the IRS to be able to see into opaque account records. Scott thought this was the scariest proposal, especially given the suggested amount thresholds. Yellen defended that the Treasury has worked with Congress to narrow the scope of the reporting and that the intent was for the reporting to be comprehensive by asking for only two additional pieces of information. She stated that there was no attempt to target those who have an annual income of less than $400,000 dollars.

**Sen. Ossoff (D-GA)** congratulated Powell on his renomination and touched on the Fed’s tapering and asked what specific economic purposes the bond buying continues to serve. Powell replied that the Fed is planning to talk about this at its next meeting and that at the beginning of the pandemic, it was to support market function and the economy which it did. Now that the economy is strong, the Fed will discuss wrapping up these purchases. Ossoff pointed to low rates and liquid markets and asked what economic purposes this continued bond buying serves, recognizing that the Fed will relook at this in December. Powell replied that it supports economic activity and the need for this has lowered which is why the Fed will discuss a faster taper. Ossoff asked what the costs and benefits have been of utilizing this technique and suggested that it worsens inequality and shifts cash onto the balance sheets of big financial institutions. Powell answered that asset purchases work like regular interest rate changes and are part of the toolkit of the Fed. He continued that companies are experiencing lower and longer-term rates, so longer term debts in our economy will benefit from these rates and he did not see quantitative easing as worsening inequality. Ossoff asked Powell what he currently assesses as the most significant threats to US financial stability. Powell replied that the banking system is strong and there are some issues in the capital markets, but not systemic threats, and added that cyber risk is the hardest to quantify.

**Sen. Daines (R-MT)** supported Powell’s renomination and expressed his concerns on inflation and how Democrats are plowing ahead on spending like inflation does not exist. He stated that injecting this amount of money into the economy with restricted supply chains is a perfect storm and believed BBBA will only add to the deficit. Daines disagreed that the BBBA is fully paid for. He turned to Powell on how CPI readings and core PCE jumped to 30-year highs and concluded that we are seeing higher inflation rates than the Fed predicted, despite the Fed claims that it will come down. He asked what in hindsight the Fed underestimated and what economic factors have changed to show that inflation will come down in the near term. Powell replied that the Fed and forecasters missed the enormous amount of supply side problems when creating the models. He explained it is hard to model what is nonlinear. Daines asked what has been learned from the past six months and what has been adjusted in the model. Powell replied that the Fed has learned to model a pandemic and that the Fed will always say there is uncertainty in its forecasts. Daines asked if rapid increases in debt will impact inflation. Powell could not comment on fiscal policy but said that unfunded spending tends to be stimulative in the short term. Daines commented on Omarova and encouraged Democrats to come out publicly and oppose her nomination so that the role can be filled.

**Sen. Tester (D-MT)** stated that debt is debt despite who created it, whether it be Democrats and Republicans, and we need to address the debt problem. He turned to housing challenges across the country and housing challenges in Indian country and rural areas. Tester asked how we can further address this. Yellen replied that the issue of affordable housing has plagued the country for years and while it was around before the pandemic, the pandemic worsened the affordability issue. In the short term, Yellen said the ERAP money available is helping, but the funds cannot be used to solve the longer-run issues. She added that BBBA will address the affordability crisis and how BBBA includes the most historic investment in affordable housing that the country has seen. Tester continued that low housing inventory is driving prices up and with BBBA, he asked if Yellen saw a significant investment in the supply of workforce and affordable housing. Yellen believed BBBA is mainly pointed toward affordable housing and BBBA will raise the supply of affordable housing in the country. Tester asked how much the $150 billion, if implemented correctly, could leverage for housing. Yellen would get back to him.

**Sen. Cramer (R-ND)** supported Powell’s renomination and read directly from the CBO scoring of BBBA on how it adds to the deficit. He touched on Menendez’s question about BBBA programs increasing workforce participation and asked if the provisions are going to help and if there is a work requirement attached to the tax credits. Yellen disagreed with his interpretation of the CBO score and how it lacks revenue from increased IRS enforcement. She responded that there are places where there are not workforce requirements, like for CTC, but that a large number of those who get tax credits do work. Cramer emphasized that there are no workforce requirements and argued that BBBA would increase inflation. He asked Powell if he knows of any economists who agree that more stimulus reduces the cost of a product. Powell replied that this is hard to answer in the abstract.

**Sen. Sinema (D-AZ)** talked about how Arizonians are increasingly worried about supply chain disruptions and asked how much of the inflation is attributed to global supply chain disruptions. Yellen replied that most countries are experiencing inflation and that we have seen a huge shift of spending from traveling toward goods that need to be produced and imported. She continued that the world is also seeing a reduction of labor supply as a result of the pandemic. Powell said if you took out the inflationary effects around goods, inflation would be much lower, and stated that energy prices are going up, which is not wholly a supply chain issue, but it is also a big factor driving up headline inflation. Sinema continued that Congress, and the administration can only do so much to help supply chain issues but pointed out that the work of the administration on ports and the infrastructure bill will help. She asked Yellen if she agreed that the infrastructure deal will reduce inflation. Yellen agreed that the infrastructure bill will help lower inflationary pressures by increasing the efficiency of the economy, modernizing our ports, and increasing economic output. Sinema turned to Powell on her previous question to him in February regarding the Fed achieving all three of its goals before raising interest rates and asked if his answer would still be affirmative today. Powell answered that it is still true that there is a three-part test and that in coming meetings, the Fed will likely wind up concluding that those inflation conditions have been met.

**Sen. Warnock (D-GA)** supported Powell’s renomination and reported that Georgia's unemployment rate is the lowest it has been which proves that the emergency funds supplied by Congress worked. He acknowledged that while we have seen improvements, we are not at a fully employed labor market and asked what else Congress should do to bring people back into the workforce. Yellen replied that vaccines and creating an environment that people feel safe to work in are the most important. She added that the childcare and elderly care provisions included in BBBA would also promote workforce participation. Powell said that on participation, it has been a surprise that we have not had more of a recovery and the most important thing is to move past the pandemic and then see where we are. Warnock asked Powell if he thought care services would strengthen labor participation. Powell replied that he did not want to comment on particular legislation, but there is good research to show that the US has fallen behind on women participation in the workforce and part of that is affordability of childcare. Warnock believed in the dignity of work and was frustrated by those who did not want to support workers.

**Ranking Member Toomey** reminded Tester that in the wake of the 2017 tax reform, we had the strongest economy in 50 years and had modest inflation. He touched on the important point that Cramer made and how the CBO has not said that the BBBA is fully paid for. Toomey clarified that Democrats do not want to lift the debt ceiling on their own because Democrats would have to specify the debt.

**Chairman Brown** countered that raising the debt ceiling is usually bipartisan and reiterated that the CBO has confirmed that BBBA is paid for. He continued on inflation and pointed to a Bloomberg article on how corporations are booming and argued that they should be able to afford higher wages for workers. Brown then warned the Fed against removing support from the economy too soon.

Oversight of the Treasury Department’s and Federal Reserve’s Pandemic Response

House Financial Services Committee

December 1, 2021

**Opening Statements:**

**Chairwoman Waters (D-CA)** said that the Biden Administration and Democrats are working hard to provide relief to Americans as the pandemic continues. She said that Democrats have provided for the American people with rental assistance and helped our nation’s restaurants. Waters pointed to the high vaccination rates and how the economy has created 5.6 million jobs under the Biden Administration. She then noted the Bipartisan Infrastructure legislation (BIF) and how we can finally improve our roads, railways, and broadband. Waters moved on to the Build Back Better Act (BBBA) that has significant investments in housing, and she encouraged the Senate to quickly pass this bill. She wanted people of color and women to truly experience recovery and thought this could be done via the programs in BBBA.

**Ranking Member McHenry (R-NC)** congratulated Powell on his renomination and thought he deserved another term at the Fed. He noted that the Fed took quick and unprecedented action to prevent a financial crisis, but now it needs to turn to economic recovery. McHenry emphasized that it is not the Fed’s job to focus on every variant and President Biden’s actions are contributing to inflation. He pointed to labor shortages and stagnant labor participation rates and how this is a product of bad fiscal policy, not monetary policy. McHenry pointed to how the CPI has been rising and argued that this is a product of Democrat policies. He noted high gas prices and how shutting off American energy sources increases the cost of energy and makes us more dependent on foreign sources. McHenry explained that the CARES Act was bipartisan, and he looked forward to hearing from Powell and Yellen on the broad economic challenge that we face.

**Rep. Green (D-TX)** said that the Fed is the lender of last resort and he wanted to note that the current unemployment among African Americans and Latinos is higher than the national average. He asked what more the Fed can do as the lender of last resort to improve employment and economic recovery for all people.

**Rep. Emmer (RMN)** said that Americans just experienced the most expensive Thanksgiving and argued that the inflation we are experiencing is not transitory. He said that more than 90% of his constituents said that inflation is impacting them and argued that we must stop this reckless spending before it financially cripples our nation.

**Witness Testimony:**

[**The Honorable Janet Yellen**](https://financialservices.house.gov/uploadedfiles/hmtg-117-ba00-wstate-yellenj-20211201.pdf)**, *Secretary, Department of the Treasury,*** stated that November has been a significant month for the economy and how Congress has been a large part of this. She was happy with the passage of the bipartisan infrastructure bill on November 5th and noted how this day was also significant due to the jobs report that came out. Yellen stated that our economy is on track and while we are on track, she understood that the pandemic is still current and mentioned the new Omicron variant. She emphasized the importance of getting vaccinated. Yellen talked about the bold relief measures Congress passed throughout the pandemic that has made the difference in people’s lives. She talked about the Treasury's responsibility of allocating funds and gave an update on the Child Tax Credit (CTC), the ERAP (Emergency Rental Assistance Program), and the State Small Business Credit Initiative (SSBCI). Yellen emphasized the need for America to pay its bills by addressing the debt limit and stated that defaulting on our debt would eliminate all progress the economy has made. She applauded the House for passing the BBBA and encouraged the Senate to pass it as well.

[**The Honorable Jerome Powell**](https://financialservices.house.gov/uploadedfiles/hmtg-117-ba00-wstate-powellj-20211201.pdf)**, *Chairman, Board of Governors of the Federal Reserve System,*** remarked that the economy has continued to strengthen, despite a slow-down during the summer due to the Delta variant. He touched on recent data from September and October, noting that the GDP is due to increase by 5%. Powell expected progress in the labor market to continue and acknowledged how the pandemic has not fallen equally on everyone. He touched on supply chain issues and the continued inflation saying that the Fed expects inflation to decrease over the next year. Powell reported that wages are increasing at a brisk pace and how the Fed is committed to its price stability goal. He turned to the Omicron variant and the potential risks it may cause in the supply chain and labor market. Powell underscored that everything he does is with a mind to the mission of the Fed.

**Member Questions:**

**Chairwoman Waters (D-CA)** said that it is not enough to get back to the way things were before and advocated for BBBA. Waters pointed to the American Rescue Plan (ARP) and how the economy has added jobs and workers have seen meaningful wage growth. She asked if Powell viewed this wage growth as positive, how this compared with other economies and if inflation was transitory. Powell replied that wages were not going up at a troubling rate and the U.S. recovery has been the farthest advanced compared to other countries. As to the inflation, Powell thought the risk of persistent higher inflation has increased, but the Fed will use monetary policy tools to deal with it. Waters asked Powell if he was talking about stimulating the economy with BBBA to help with the inflation that we are experiencing. Powell answered that forecasters expect inflation to go down next year, and they have seen the factors that cause inflation be more persistent, such as issues with supply chains. He would not comment on BBBA. Waters turned to Yellen and how she focused on the quit rate as Chair of the Fed, and she asked what the quit rate tells us about the economy today and how the BBBA would help with this. Yellen said that the quit rate has been very high, and this signals a tight labor market. She continued that this has been an unusual shock, but we have seen a decline in participation in the labor force for some due to retirement and death. Yellen explained that some workers are still not comfortable going back to work given the pandemic and once the pandemic is under control, they will return.

**Ranking Member McHenry (R-NC)** said that the Fed incorporates new fiscal spending into projections and how a lot depends on the details. Powell agreed. McHenry pointed to the ARP and the BBBA, large fiscal bills, and how Waters' evaluation of these improving inflation means inflation would increase. He pointed to the forecasted output gap and how the Biden Administration came to the Congress for fiscal stimulus, and he asked Yellen if they overshot in this case. Yellen said that there was a shortage of jobs, and she did not think it was a fair assumption to say that they overshot. McHenry said he was asking a specific question about the output gap, which was about $300-400 billion, and how others have commented that the ARP contributed to inflation. Yellen countered that inflation is about supply and demand and it is true that ARP contributed to strong demand, but if one looks at the amount of inflation, this was a small contributor, and it has mainly been supply chain issues and high demand for goods. McHenry said that there’s a difference between a supply and demand issue. Yellen said that the ARP did boost demand and it put households in a favorable position, but the fact that spending has been so focused on goods has contributed massively to supply chain issues. McHenry said that the administration wants to blame inflation on the Federal Reserve, but it is the administration’s agenda and policies that are driving up the costs.

**Rep. Perlmutter (D-CO)** said that a more important topic is that since former President Trump was defeated, we’ve added almost 6 million jobs to the economy and the stock market has risen in the last year. He turned to Yellen on how unemployment has been falling at a fast rate and before the ARP, the CBO expected that it would take two years to get to our current level. Perlmutter asked how the BBBA would create more opportunities for Americans. Yellen said that BBBA addresses long term problems that contribute to economic inequality by including affordable childcare and child tax credits. She thought these provisions would boost labor participation, especially of women. Perlmutter then asked about the SAFE Banking Act and explained what the bill does and how it has passed bipartisanly. He said that the Chief Counsel of the IRS has acknowledged the challenges of collecting taxes from cannabis businesses and he asked Yellen if she agreed that if these businesses could access the banking system, it would make the IRS’ job easier. Yellen agreed.

**Rep. Wagner (R-MO)** turned to Powell on how he said that inflation would not be persistent several times in previous hearings, however Americans continue to face rising prices. Wagner asked if he still stood by what he previously said. Powell said he did not. Wagner pointed to how Powell said he wanted to retire the term ‘transitory' and asked him to explain what the term means for the Fed. Powell replied that the Fed means that this episode will not leave a persistent, long run string of high inflation behind it. He thought they needed to explain themselves better and the risk of higher inflation has gone up. Wagner then asked if excessive stimulus spending would be a driver of inflation. Powell did not want to comment on fiscal policy, but he said that if you go back to their forecasts, the Fed did not include the supply side issues in its models. Wagner pointed to more money in households. Powell said there was high demand, but also a stronger economy. Wagner then turned to Yellen and noted the CBO score on BBBA and asked about the impact of such spending on consumer markets and goods. Yellen said that the CBO scored that the BBBA would result in debt, but it did not include the revenue that will come from enhancement of resources for tax enforcement.

**Rep. Gonzalez (D-TX)** turned to Yellen on how caregiving was one of the major barriers that people face when going back to work. He then asked about the impact of BBBA in supporting our economic recovery and if she thought investment in Pre-K would boost our economic recovery. Yellen responded that she did and noted how women’s labor market participation in the U.S. fell short compared to other countries. She said BBBA would make childcare more affordable and help boost labor supply. Gonzalez then moved on to PPP and how reaching businesses owned by people of color was difficult. He asked how they can ensure that they have the same access as others to resources. Yellen said that the most recent PPP priority was given to CDFIs and MDIs and going forward Congress has provided considerable resources to these institutions who have great ability to reach communities in underserved areas. She added that the Treasury also recently issued guidelines for the SSBCI.

**Rep. Taylor (R-TX)** pointed to Milton Friedman’s treatise, *Freedom to Choose*, which includes a chapter on the cure to inflation. He pointed to the increased supply of money contributing to inflation and argued that Powell has printed too much money. Taylor recommended that the Fed stop printing money now since this is a top issue for Americans. Powell answered that price stability and max employment are two of the Fed’s goals and the Fed will use its tools to ensure inflation is not entrenched. He continued that the velocity of money has become variable, and the Fed focuses on supply and demand in the economy, not the money supply, but his point on inflation was well taken. Taylor asked if the stimulus has continued to increase inflation, especially the ARP since it was not paid for. Yellen agreed that it was not paid for, but the administration did not want to see American society permanently scarred from the pandemic, and it did boost demand, which is just one of several factors in inflation. Taylor said she was denying that the government created the inflation that they are experiencing, and this denial was predicted by Friedman.

**Rep. San Nicolas (D-Guam)** said that the ARP was to ensure that we did not collapse our economy. He said that the minority is trying to pin inflation on fiscal policy, but it is important to remember that they were upset about the rollout of relief funding not being released fast enough. San Nicolas added that BBBA has not been enacted and inflation is only running to a certain point. He then turned to Powell and asked if the inflation is just in America or global. Powell explained that if you look at Europe and Canada, you are seeing high inflation in many of these countries. San Nicolas asked if it was fair to say that this is a result of normalization of the economies getting back on their feet. Powell explained that this was true, but countries are feeling it to different degrees. San Nicolas turned to Yellen and said that Guam’s governor is holding off on spending on local recovery funds because they are waiting on a final rule. He asked if the final rule would differ much from the interim rule. She explained that it would be coming out soon, but the interim rule applies.

**Rep. Zeldin (R-NY)** asked Yellen if she said that the BBBA is fully paid for. Yellen clarified that the administration agrees with the CBO score, but it does not include revenue from the investment in the IRS, and the administration estimates that the payoff from that will be $400 billion. Zeldin appreciated her clarification and said that many do not want more IRS agents going after hard working Americans. He added that people do not want the IRS spying on bank accounts and asked Powell if he said that inflation would start coming down next year. Powell answered that was the forecast. Zeldin asked if he agreed with it. Powell said it was likely, but the Fed cannot be sure of that. Zeldin wanted to understand this in the context of BBBA and asked Powell if this prediction about inflation coming down next year assumes that BBBA is law or not law. Powell replied that it is not the Fed’s job to comment on fiscal proposals. Zeldin said that the forecast is built on the assumption that the money is spent or not. Powell explained that there are also supply chain issues and fiscal provisions would be included, but it cannot be precise. Zeldin said that this leaves far more questions than answers.

**Rep. Pressley (D-MA)** explained that the House just passed BBBA and how Republicans are not putting forth serious solutions on inflation. Pressley asked if affordable childcare would have a positive impact on the economy. Yellen said it would. Pressley asked if investing in more affordable housing would have a positive impact on the economy. Yellen said it would. Pressley then asked if explaining the Child Tax Credit (CTC) would have a positive impact. Yellen said it would and has already done so. Pressley said that no Republicans voted for BBBA, and they are spreading lies about how it will contribute to inflation and the deficit. Yellen agreed that inflation is due to the impact of the pandemic on the economy and the demand shift to goods.

**Rep. Gonzalez (R-OH)** said that when supply and demand are unbalanced it can lead to inflation and he asked if Yellen agreed. Yellen said that the demand has increased for goods. Gonzalez asked if the ARP alleviated supply issues. Yellen said that it did not have substantial impacts on supply. Gonzalez said he was frustrated that the administration went forward with the ARP, that Republicans warned that it would create inflation with increased demand and how the administration is about to make the same mistake with BBBA. He continued that risk accumulates overtime and we have seen various asset bubbles grow overtime and he asked about the ramifications of the taper on the economy. Powell said that the taper does not need to be a disruptive event in markets, and it is appropriate that they consider tapering faster. Gonzalez agreed and said that risk may be building up and he wanted that on the Fed’s radar. He then pointed to how Americans have been experiencing increased energy prices and asked if the claim that greedy corporations were the reason for increased gas prices. Powell said that many factors are at work, including high demand, and added that demand was the main issue. Gonzalez continued that in the summer of 2020 the Fed updated its statement of longer run goals and monetary policy strategy to state that the Fed would seek to achieve inflation above 2% for some time period. Gonzalez asked if Powell had any second thoughts on this given that we have seen inflation persist for quite some time and how would Powell have responded differently if the framework had not been changed. Powell responded that the overarching fact of monetary policy in the last 15 years and probably the next 15 years is that interest rates have been closer to zero and, in that world, it is hard to support the economy and obtain growth, maximum employment, and 2% inflation so the framework was designed to address a situation like that. He added that we have a unique historic shock with the beginning, middle, and end of the pandemic and there is a different part of the framework that deals with that.

**Rep. Tlaib (D-MI)** turned to Powell and asked what his plan was to address climate risk in our financial system. Powell said that the Fed has a couple of ways to address climate, first by supervising institutions and ensuring that they understand the risk that they face. He added that they are doing research on how the climate impacts financial institutions and the economy. Tlaib noted that the OCC plans to issue guidance on climate risk and asked if the Fed plans to join this guidance, why or why not. Powell did not think they would join that guidance. Tlaib said that the OCC was also doing an assessment on big banks and climate and asked if the Fed planned something similar. Powell said that the Fed has ongoing discussions with these banks, and they are looking at the proper tools for this. Tlaib was glad that the Fed joined the Network for Financial Greening but noted that the U.S. still trails other countries in measuring and monitoring climate-related financial risk. She continued that the European Central Bank has announced that climate risk will guide its financial policy and asked if the Fed will do the same. Powell said that he is focused on the U.S. and the Fed’s existing mandates for now. He stated that the Fed is not doing that now and thought it would be something the Fed will do in the longer run. Tlaib referred to the European Central Bank’s supervisory review that revealed that banks face material risks from climate risk yet have failed to meet the supervisory expectations laid out by the regulators. She asked if Powell had similar comprehensive information about U.S. banks. Powell said that the Fed is developing this.

**Rep. Gooden (R-TX)** asked Yellen if more people would be audited by the IRS if they receive more funding. Yellen said that these audits would be targeted at sources of income that are opaque. Gooden asked how they need 87,000 new IRS employees for this. Yellen said that their workforce and skill level has decreased, so it is critical to have people with the expertise to conduct these audits. Gooden asked if spending another several trillion dollars will contribute to inflation, considering the wrong predictions in March. Yellen said that BBBA is a decade long plan, a small plan relative to the total size of the GDP, which is paid for and has investments that will continue to improve investments. Gooden asked Powell if increased spending would help reduce inflation next year. Powell said that he would not comment on existing legislation. Gooden asked if the Fed’s inflation projections include BBBA. Powell said he was reluctant to comment on something that the Fed does not have all the facts on.

**Rep. Dean (D-PA)** congratulated Powell on his renomination and moved onto the BBBA. She said that the BBBA makes critical investments and asked Yellen how some corporations avoid or fail to pay taxes. Yellen said that the rates of compliance of income streams that have third party reporting to the IRS, 95-98% of income is reported, so that is not the problem. She explained that the issue is opaque income that requires one to rely on the honesty of the taxpayer, so for complex partnerships and companies that income can be opaque, and increased auditing can increase honesty. Dean turned to Powell on investments raising productivity and living standards as well as supply chain issues contributing to inflation. She pointed to provisions on manufacturing and improving supply chains in BBBA and asked how this investment in manufacturing would help with supply chain issues and inflation. Powell could not comment on the bill, but a significant part of the inflation is due to longer supply chains from Asia, so if things were made locally there would be less inflation.

**Rep. Sessions (R-TX)** said that Yellen references BBBA being fully paid for even though the CBO does not report it that way and he asked if she was in favor of her view of BBBA or the CBO score. Yellen said that the administration agrees with the CBO analysis. Sessions said that it is not honest to say that BBBA is fully paid for. Yellen countered that Congress needs to look at the footnotes and recognize that the score did not include additional revenue from IRS enforcement which would more than make up for the deficit from BBBA. Sessions disagreed with Yellen and still thought that since honesty in reporting is necessary that the CBO does not concur. He thought it was important to tell the truth and how it would take 5-6 years to get 87,000 additional employees.

**Rep. Ocasio-Cortez (D-NY)** wanted to focus on climate change and the Fed’s role in that. She pointed to how the US just returned from COP26 and the FSOC recently released a report on climate-related financial risk. While this is the first time FSOC has designated climate as a threat, she was disappointed that there were no timelines or policies needed to stay within the 1.5-degree Celsius target and it does not focus on it at all. Ocasio-Cortez asked Yellen why the report does not discuss global targets on emissions. Yellen said that FSOC identifies financial stability threats, and the Treasury is involved with putting together policies that will address climate change, including those in BBBA and BIF. Ocasio-Cortez asked if, if we look at our partners around the world, is the US behind on making climate commitments. Powell said that they are working on regulation, supervision and financial stability more broadly. Ocasio-Cortez pointed out that the International Energy Agency (IEA) said that fossil fuel supply was not compatible with the 1.5-degree target and asked if we should phase out investments in fossil fuels. Yellen said that the FSOC and the Fed mission is the safety and soundness of the financial institutions, and they cannot tell institutions to pursue lending policies that support the Paris commitment.

**Rep. Lucas (D-OK)** congratulated Powell and admitted that he was not sure the President did him a favor. He said that the U.S. has added trillions to our national debt and how we need to raise the debt ceiling. Lucas said that the US is expected to exceed the debt to GDP ratio and asked Powell when we should be addressing this threat. Powell said that the U.S. needs to get back on a sustainable fiscal path and the time to do that is when the economy is stronger. Lucas asked Powell how policymakers at the Fed evaluate the results of fiscal spending forecasts on the economy. Powell said that we had a stimulative 2020, so the Fed is looking at another strong year, but it sees the supply chain untangling and inflation coming down. Lucas turned to Yellen on climate and said he was concerned coming from a district that produces energy that regulators might strangle these industries. Lucas asked if that was the intent of the regulators. Yellen said that, as Chair of FSOC, the council is focused on financial stability and the Fed is focused on safety and soundness.

**Rep. Garcia (D-IL)** said that our recovery has made remarkable progress since the passage of the CARES Act and the ARP. He turned to I-10s expiring last year and the delays around them and asked what the Treasury is doing to streamline the process for I-10 filers. Yellen said that she could get back to him on this, but the Treasury has been trying to speed up the delivery of the CTC. Garcia asked what the Treasury can do to monitor the success of the CTC in the Latino community and what Congress can do to ensure it reaches all who are entitled to it. Yellen said that the Treasury has been trying to get the word out, so families know how to apply. Garcia asked if Congress had a role in this. Yellen said that the Treasury has asked members of Congress to get the word out and the IRs has had an outreach program, but members can also do outreach in their districts.

**Rep. Luetkemeyer (R-MO)** congratulated Powell on his renomination and asked Yellen if institutions should be punished by the Fed when they do not follow the law. Yellen said yes. Luetkemeyer asked if cabinet members should be held accountable when they do not follow the law. Yellen responded yes. Luetkemeyer noted how the CARES Act asks the Treasury Secretary to report before the Small Business Committee on PPP, but she has yet to do so. He asked why she had not testified. Yellen said that congressional oversight is very important and over the past 10 months, she has testified 12 times before Congress. Luetkemeyer said that she accommodated other committees, but not the Small Business Committee. Yellen said that she has offered her Deputy Treasury Secretary. Luetkemeyer emphasized that it is her job to oversee and report on this program according to the law. He then turned to how he was concerned about the continued investment in China (via bonds, companies, and securities) and asked Powell if he was concerned about this. Powell said that the Fed does not have a role in that, the SEC would have a role in that, but not for the Fed. He said he was more concerned about inflation and prices here at home. Luetkemeyer thought that this investment in China contributed to these issues.