The Semiannual Monetary Policy Report to Congress
Senate Committee on Banking, Housing, and Urban Affairs
June 22, 2022

Opening Statements

Chairman Brown (D-OH) noted that we are seeing the fastest growth in decades and lowest unemployment in years, but wages are not keeping up with inflation. He said that families always carry the largest burden and there is no invisible hand of the market, when prices go up, it's because someone made a choice to raise them. Brown pointed to how companies can choose to reduce stock buybacks and executive pay raises or raise prices and they always choose to raise prices. He noted how supply chains have contributed mightily to inflation, how oil and gas companies increase prices instead of increasing production, and how companies like Amazon and Starbucks crush unions. Brown said that concentration is in every sector of the economy and went on to say that we need an economy that works for everyone. He noted the American Rescue Plan (ARP) and the infrastructure package and how we need to build on these successes so the economy rewards work. Brown said that they should bring down the costs of prescription drugs, childcare, and ensure that workers are being treated right. He also advocated for cracking down on consolidation and concentration. Brown said that Americans want to work with dignity, and this is part of the Fed's mandate. He went on to say that as interest rates rise, it's important to watch the biggest banks to ensure they don't make risky decisions. Brown said that we have seen too much evidence of big Wall Street banks raking in billions in overdraft fees and discriminating against borrowers. He said that we need to ensure there is a faster payment system for workers and main street banks. Brown moved on to discuss how stablecoins and digital assets promise transparency and democracy, but they are not backed by the full faith and credit of the US. He said that the Fed must restore Americans' trust in the institution, and we need to pass the Ban Conflicted Trading at the Fed Act.

Sen. Tillis (R-NC) noted the 40 year high in inflation and how it is crucial to understand what turbocharged inflation. He noted that there were predictions of economic recovery, but there were still concerns about the disruption of supply chains given rising demand and the Biden Administration still considered it responsible to ram through trillions in spending. He said there is no wonder that there is inflation. Tillis said that this is what turbocharged demand and therefore inflation. He said that he was pleased that the Fed was taking drastic action, but monetary policy is still too loose. Tillis pointed to the Taylor Rule and how the Fed has boxed itself into purely reactive policy measures. He said that the Fed has remained behind the curve, and he was concerned that they would lose credibility if they did not keep up. Tillis moved on to discuss Fed Master Accounts and how he and others have requested information from the Fed but have received little information. He said that the KC Fed will not give the Republicans information about their decision to reverse a decision on a master account. Tillis thought that the Fed Banks should be subject to FOIA, and that Congress should explore making the Fed

Regional Banks presidentially appointed and Senate approved positions. He thought it was time to revisit these ideas to make the Fed more transparent and accountable.

Witness Testimony

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

Member Questions

Sen. Warren (D-MA) wanted to talk about what the Fed is and is not doing when it increases rates. She pointed to the increase in gas prices and asked if gas prices would go down with rate increase. Powell did not think so. Warren said that energy prices are one of the key drivers of inflation, but the Fed's tools do not have an impact here. She turned to the increase in grocery prices and asked if the rate increase would bring food prices down. Powell did not think so. Warren said rate hikes will not bring down prices because they do not deal with Putin, supply chain issues, or market consolidation. She wanted Powell to talk about how rate increases affect demand. Powell said that when interest rates go up, people's demand decreases, and asset prices will moderate when rates go up, so people spend less. He added that the dollar also strengthens. Warren understood that there would be less money for companies to invest. Powell said that it is about moderating demand, so it is in better balance with supply. Warren said that this in turn is going to throw workers out of work which decreases supply and she understood that businesses would be hiring less. Powell said that part of this is getting the labor market back into balance. Warren said that rate increases increase the cost to invest, and she was raising this issue because rate increases make it more likely that companies will fire people and cut hours. She said that it also makes mortgages more expensive, and inflation is like an illness and the medicine needs to be tailored or things could be a lot worse. Warren said that the Fed does not have control over a lot of issues impacting inflation and she was worried that the Fed could tip this economy into recession. She said that there could be high inflation with millions of people out of work.

Sen. Shelby (R-AL) noted how Yellen admitted she was wrong about inflation and said that the Republicans have been warning about inflation for a long time. He noted how he brought this concern up last year and how prices were already rising back then. Shelby was concerned last year that the Fed would not address rising inflation before it was too late and here, we are today with inflation at a 40-year high and gas at $5 a gallon. He said that ultimately as inflation runs rampant, the Fed and the administration failed the American people by not heeding these warnings last year. He asked Powell what we can expect in the future from the Federal Reserve and what he will use to bring this under control. Powell noted that they have increased rates and their policy rate is only at 1.6%, but the market is already pricing in rate increases, but the Fed still needs to do them. He said that they understand the full scope of the problem and they are using their tools to address them. Shelby asked how important price stability is to all Americans. Powell said that it is the bedrock of the economy, and you cannot have maximum employment without price stability, and it is essential that they achieve this. Shelby asked what the next step was. Powell thought the market was reading their reaction well and there would be expeditious progress toward higher rates. Shelby asked if the Fed Board was as committed as Volcker was to bringing inflation under control in any way. Powell said that they are strongly committed to price stability, and he would not compare himself to Volcker.

Sen. Reed (D-RI) asked if gas price inflation was a global phenomenon. Powell said yes. Reed said that this has been exacerbated by the Russian invasion and asked if a cartel sets the price of oil. Powell said yes. Reed moved onto food and noted the impact of climate change, transportation costs, the lack of grain and fertilizer from Ukraine and Russia. He also thought affordable housing was an issue and asked if these issues were contributing to a major increase in prices. Powell said that this was part of the price increases. Reed noted that there are four major meat processors in the US, which means they can constrain supply and increase prices, and he asked Powell if this concentration was part of the problem. Powell said that this was for the competition authorities, but this can sometimes be an issue. Reed asked if they had much more to do in Congress to address issues around inflation. Powell said that this was for them to decide. Reed then turned to how we are at a turning point in our economy and how perhaps hydrocarbons are limiting investments because they are anticipating electric everything and asked if this is something that the Fed is considering. Powell said that this is something those companies are considering.

Sen. Tillis (R-NC) noted that according to the Fed’s policies, like the Taylor rule, the rates should have increased long ago, and they should be much higher right now. He was concerned that the Fed has opted out of rules based monetary policy for discretionary monetary policy. Tillis asked if Powell would consider increased rules-based decision making. Powell said that they consider these rules when making decisions, but the Fed has never really used them in a prominent way to set policy in real time and they consult them on an ongoing basis. He said that in a couple years, when they look at their framework again, they could look at that. Tillis asked what other factors came into play so that we are not at the 6% we would be at if the Fed used the Taylor Rule. Powell said that we are getting market tightening well in advance of raised rates because these rate increases are being anticipated and priced in. He said that real rates are positive across the curve which is what we want. Tillis noted that in 2012 the Fed adopted their 2% inflation target and many warned that this would give inflation a foothold before the Fed could respond. Tillis asked if the Fed will push inflation below 2% so it averages 2% overtime. Powell said that this is not how the framework worked and the disinflationary forces over the past quarter century got replaced by a new set of forces and those are the forces that their policy is dealing with. He said that their real question is how long this new set of forces will be sustained. Tillis said that there are renewed talks of reconciliation and asked if increasing spending and taxes would make Powell's job easier or more difficult. Powell wanted to stay out of policy debates, and they take fiscal policy as a given for them to work through. Tillis asked if ARP impacted inflation. Powell said it is not their job to pass judgment on this.

Sen. Cortez-Masto (D-NV) noted the increase in gas prices and how oil and gas companies are making record profits, but not investing in increased oil production. She pointed to industry consolidation as well and asked how much Federal Reserve economists consider consolidation in an industry and how we can hold them accountable for these rising prices. Powell said that these are questions for the competition authorities. Cortez Masto said that the Fed must consider this fact just as they consider the war in Ukraine. She noted that Glencore was fined billions for manipulating oil prices to their benefit. Powell explained that the global oil prices are set on the global market and as he mentioned there is a large cartel responsible for setting these prices. Cortez Masto asked if they were taking into consideration these companies not drilling more and increasing prices. Powell said that the best thing you can do is take into account oil futures and they raise, and lower interest rates and they cannot address the practices she is talking about. He went on that these are not judgements for them to make. Powell said that the Fed cannot do anything about oil prices. Cortez Masto asked if he was concerned about the oil companies not coming to the table. Powell said that this is not up to the Fed to get involved in these policy issues.

Sen. Rounds (R-SD) noted that a large portion of inflation stems from higher energy prices which is part of the supply side issue. He noted the increase in gas prices even before the invasion of Ukraine and how the increases are a result of prohibiting new gas leases, cutting off the Keystone XL Pipeline, and calling on OPEC to increase oil production. Rounds said that this sent terrible messages about investment in oil and gas in the US. He asked if Powell risked hurting the economy by using interest rate increases when he really cannot impact the price of gas and food. Powell said that they know that their tools cannot impact certain aspects of inflation and they know that core inflation is a better indicator. Rounds said that the administration is claiming the Fed can fix inflation, but the issue is that the Fed cannot fix all aspects of inflation. He thought that inflation would be blamed on the Fed. Powell said that they are focused on the areas of the economy where their tools do have an impact. Rounds noted that the Basel Committee made changes to calculations for European GSIBs and asked if he believed that this change reflects the view of the Fed. Powell understood that this is about supervisors using discretion when it comes to transactions in the EU and it does not apply here.

Sen. Warner (D-VA) said we are grappling with a global phenomenon when it comes to inflation. He pointed to inflation in Turkey, high gas prices in Finland, and how he thought that we were not addressing the issues stemming from China and their COVID zero policy. He asked Powell to speak to this. Powell agreed that inflation was a global phenomenon, but the US inflation is more about demand. He said with regard to China, we have not seen the full impact of lockdowns and China seems to be recovering, but their zero COVID policy could cause relapse. Warner thought it was important to increase oil production in the Middle East and he was not convinced that a gas tax holiday would help. He noted USICA and how it would ensure that there is a domestic supply chain of semiconductor chips and how the lack of chips is a big driver of auto inflation. Warner asked if investment in the long term in something like this would help with inflation. Powell did not want to comment on policy but said that we have learned a lot about supply chains and that we should learn what to improve and harden up and have available domestically.

Sen. Kennedy (R-LA) said that demand is greater than supply, so prices go up. Powell said yes, in some portions of the economy. Kennedy asked if Powell was trying to lower demand. Powell said yes and to give the supply side time to recover. Kennedy asked if Powell was trying to slow the economy down. Powell said that they are trying to slow growth. Kennedy asked if increasing supply would solve inflation. Powell said yes. Kennedy asked what Congress could do as the Fed lowers demand to increase supply. Powell said that over the medium term, investing in people so they can remain in the labor market and investing in infrastructure. Kennedy was interested in the short run and asked if reducing the regulatory burden on refineries would incentivize refineries to refine more. Powell said capacity on that front would help. Kennedy said he was not asking Powell to endorse specific legislation. He asked what if Congress decided to freeze spending until we can get control on the demand side. Powell did not want to give advice on this. Kennedy asked if this would help reduce inflation. Powell said it might. Kennedy noted how the government spent $7 trillion and the Fed increased its balance sheet as well. Kennedy asked what they can do. Powell said he is focused on what the Fed can do.

Sen. Tester (D-MT) said that freezing spending might be a good idea, but it is harder in practice and pointed to the flooding in Montana. He was concerned about the impact of inflation on rural America and asked if the Fed is doing anything that he could take back to his constituents.

Powell said that they hear from Fed Presidents about what is going on and noted the increase in fertilizer prices and difficulties getting parts for equipment. He said that they appreciate this, and they will work carefully with farmers. Powell noted that they are also focused on price stability which will help. Tester said that there is a fine line to walk where if interest rates are too high, there could be recession and asked what could be done to prevent this. Powell said that right now, we have a low short-term rate, and they want to get it up to a more neutral level, so the concern is not about the level, but the speed. Tester asked if we are at a neutral level. Powell said no, and they think it would be appropriate to raise rates to a moderately restrictive level because we are at high inflation, and we need to get inflation back down to 2%. Tester asked if rates going too high too fast could drive us into a recession. Powell said it is a possibility, but not their intended outcome, and events around the world have made it difficult to reach their goals.

Sen. Hagerty (R-TN) discussed the Fed's balance sheet and asked if their unrealized losses limit their ability to execute its monetary policy objectives and if they will sell MBS and realize loss or be cornered into holding these securities until they appreciate. Powell said that these losses are not a consideration with monetary policy and said that they would look at MBS when the normalization process for the balance sheet is well underway. He said that to achieve the mostly Treasury balance sheet, they may need to sell MBS, but they will be very transparent about this. Hagerty clarified that they are not limiting their ability to sell these at a loss. Powell said yes. Hagerty noted multiple factors that cause inflation and said that the problem has not sprung out of nowhere. He said that inflation has risen incrementally and asked if Ukraine is the primary driver. Powell said no, it was high before the war broke out. Hagerty was happy to hear that and noted that Biden Admin keeps blaming in the war. He moved onto concerns about recession and asked how the Fed will balance their two mandates. Powell said that the labor market is unsustainably hot and on inflation, they are far from their target. He said that they need to restore price stability for a sustained period of maximum employment. Powell did not think there needed to be a recession. Hagerty thought he had a challenging job especially due to certain fiscal policies.

Sen. Smith (D-MN) noted the mismatch between supply and demand and asked what the basis for the argument is that wages are too high and need to come down to manage inflation. Powell explained that the issue is that wages are not keeping up with inflation and there is evidence that wages are flattening out. Smith asked how long it would be before prices go down if wages stabilize. Powell said that the prices do not have to go down, but it depends on the businesses. He noted that in services, labor is a significant cost, and it gets passed through. Smith noted that we have a strong labor market but still high unemployment among African Americans and asked what Powell saw as the interplay between wage growth and Fed actions to cool demand on that underlying issue. Powell clarified that they do not target wage growth, their job is price stability and in terms of disparities, those increased at the beginning of the pandemic and the gaps have returned to lower levels. Smith agreed that this was a systemic problem that needed to be addressed by Congress. She thought that as long as wage growth is lagging inflation, labor costs are dampening inflationary pressures so it's a complicated issue. Powell agreed. Smith noted higher costs for housing and was interested in how Powell weighed this dilemma. Powell noted that prices went up everywhere during the pandemic and rates were low, but now that market is slowing down. He agreed that labor shortages were a longer-term issue and that there were constraints on housing production as well.

Sen. Lummis (R-WY) asked about the accounting treatment of digital assets which requires publicly traded companies, including banks, to hold digital assets in custody as an on-balance sheet liability. Lummis asked if this would be applied by the Federal Reserve to banks and bank holding companies. Powell said that they saw this, and they are looking at this and working on this issue with bank supervisors. Lummis noted Basel's Framework of Prudential Treatment of Crypto Assets which acknowledges that they are off balance sheet. She said that the SEC bulletin will make this the first-time custody assets are on the balance sheet and asked if it was smart of the US to impose bank standards beyond international norms. Powell said that the SEC has authority over accounting rules and the Fed is considering this question. He understood that custody assets are off balance sheet and always have been. Lummis encouraged him to consider this and turned to Fed Master Accounts. She said that the Board and Federal Reserve Banks have not been transparent about the application process. Lummis said that these accounts are public benefits and asked if the public should not be able to see this information. She asked Powell to commit to making a list of institutions that have received and applied for Master Accounts public. Powell was happy to look into this. Lummis said that the applicants are being whipsawed between the Federal Reserve and the regional Fed banks. She said her frustration level is at a boiling point and she wanted to use this opportunity to encourage them to address this.

Sen. Van Hollen (D-MD) encouraged Powell to move quickly on the FedNow real time payment system implementation and asked for his commitment to this. Powell said that he was committed to getting this system complete on time. Van Hollen said other countries have figured this out and we should be there now. He then turned to the challenge in navigating keeping a strong economy, low employment, and dealing with price stability. Van Hollen said that the US is doing better than other near peer economies. Powell agreed. Van Hollen said that they also want to deal with price increases and many of those are caused by things beyond the control of the Fed. He asked if Powell agreed that increasing the supply of housing can reduce housing prices. Powell agreed. Van Hollen asked how they would navigate these cross currents. Powell noted that demand is moving down because of mortgage rates and now the increase in housing prices will slow significantly now. He hoped that they would get demand to slow to a more sustainable pace and get the housing market back on a sustainable path. Van Hollen appreciated that and asked, given the fact that many price increases are beyond their control, what Powell's confidence level was that we would have a 'soft landing.' Powell said that it is their goal, but it is going to be very challenging and said that the past few months have made it even more challenging. Van Hollen said that this is the point and the factors outside of the Fed's control will not be impacted by the Fed. Powell said that the other risk is not restoring price stability and that this will hurt the people in the lower income part of the spectrum the most.

Sen. Daines (R-MT) was also deeply concerned about inflation and its impact. He pointed to how Larry Summers warned about the risks of stimulus when we still had trillions of unspent COVID money. Daines said that Democrats continue to advocate for more spending via reconciliation. He asked Powell if he agreed with Summers that several years of greater than 5% unemployment may be necessary to contain inflation. Powell responded that he did not want to comment on other forecasts, but it would depend on factors like the war in Ukraine, and supply chains. He thought there were paths to get inflation down to 2% with outcomes less troubling than that. Daines asked what Powell's confidence was in achieving a soft landing without recession. Powell said that is their goal, but it will be challenging and the events over the past few months have made it more challenging. He said we need to see progress on the supply side, but their tools deal with demand which is what they are focused on.

Sen. Ossoff (D-GA) noted that Powell has a tough job in complex times and asked Powell to specify what transmission mechanisms are most sensitive to the changes in monetary policy and the extent to which he anticipates that some of the effects he hopes to have on aggregate demand are transmitted by financial markets. Powell said that the first is intransitive spending like durable goods and housing, so these purchases will be restrained. He said second is asset prices generally, the costs of holding assets goes up and this has a broader impact on spending. Powell said that the third is the exchange rate which presses down on inflation. He said that the housing market is very sensitive to interest rates, and we will see a slowing down there. Ossoff turned to financial stability risks and noted that there are institutional trades that could unwind or exotic financial instruments that do not function well and asked Powell what he expects to present the greatest risks to financial stability. Powell said that the banking system is strong and highly liquid. He said that this is a reflection of the work of banks and regulators. Powell noted that the capital markets showed some real illiquidity after the pandemic, and they are looking at ways to address that. Ossoff asked if Powell was still concerned about money markets. Powell said that they had to step in, but there are reforms at the SEC that should address this. He said he was thinking more about the Treasury market. Ossoff asked Powell to what extent he believed that the principal driver of inflation was elevated demand or the lack of supply. Powell said it is clearly both factors.

Sen. Moran (R-KS) said that he has never seen this level of anxiety and uncertainty about the future. He highlighted the issues around agriculture and how more people will starve if we fail to get more grain into markets. Moran noted that interest rates impact agriculture and how profit margins get squeezed if interest rates continue to climb. He asked Powell how he can assure Kansasians that things will be better, and that farmers' future will be brighter. Powell replied that he took the very low confidence readings as being directly related to high inflation and they need to get inflation back down to 2%. He thought commodity prices could remain high, but they are generally volatile. Powell said that they watch the agriculture sector, and they know it is a difficult time and they are working to get inflation under control and interest rates are painful, but it is the tool they have. Moran said that Powell indicated that there are aspects that Powell cannot control, including energy. He asked if Powell would ensure that the Fed would not pursue federal policies that limit fossil fuel protection. Powell said it was not their job to allocate credit.

Sen. Warnock (D-GA) said that Georgia is facing an affordable housing crisis and it is a rural and urban problem. He asked what the Fed is doing to prevent this rate increase from further exacerbating the housing crisis. Powell said that the housing market is slowing with higher rates and that should mean that housing prices should stop going up at such rapid rates. He said that the housing market was hot across the country and as demand moderates, price increases should slow down, and home sales should go down. Powell said that there are also supply-side constraints around housing that the Fed cannot control. Warnock said that mortgages are about to get more expensive and pointed to his Down Payment Toward Equity Act. He asked what the Fed would do, as rates increase, to ensure everyone still has access to fair affordable mortgages according to the Fair Housing Act and ECOA. Powell said that the rate increases will not impact their enforcement of fair credit laws, and there will be pain around increased mortgage rates, but it needs to happen to get back to price stability. Warnock said that the Fed would have to be 'lucky' to count on a soft landing according to Yellen and he did not like this. He noted that he had legislation to lower costs and asked what Congress can do to lower costs and ensure a soft landing. Powell said he was reluctant to give advice. Warnock asked if he agreed that those on the margins feeling the most pressure need to be addressed. Powell said yes because they do not have the resources, and this is why they are so focused on getting on top of inflation.

Sen. Sinema (D-AZ) said that these inflation numbers continue to be concerning and this is a global problem. She asked about the US position relative to other countries with regard to inflation. Powell said our inflation is comparable to Canada's and countries in Western Europe, but theirs is driven more so by high energy prices. Sinema said that crypto markets have experienced substantial volatility and asked if the Fed had been monitoring it and if it had impacted monetary policy. He said that they are monitoring this, and it has not really impacted macroeconomic policy. Powell said that there is a need for a better regulatory framework and there should be the same regulation for the same activities. Sinema asked how much of US inflation is due to the war and how Powell is thinking about these events in the context of monetary policy. Powell said that the increase in commodity prices is clearly connected to the war in Ukraine, so that inflation would be much lower without the war in Ukraine, and the Fed's tools work on demand, so they do not have an answer to global oil prices. Sinema noted the increase in e-commerce and how the indicators for inflation may need to change and asked if Powell has given thought to this issue. Powell said yes in the sense that they look carefully at how they measure inflation, including personal consumption, and economists think that PCE inflation is a better measure of the inflation that people are actually experiencing.

Sen. Menendez (D-NJ) discussed the issue of diversity at the Fed and pointed to a letter he and others sent to Powell on reforms to the process of choosing bank presidents. He asked Powell to commit to providing a response within the month. Powell committed to it and committed to having a frank discussion with him about diversity. He said that they have made progress with the B&C directors. Menendez said not one bank president has been Hispanic and he thought this was bad. He went on to say that Hispanics deserve a seat at the table, and he looked forward to engagement on this. Menendez said that there is no question that inflation is affecting every family and we need to understand the underlying factors driving increases. He asked how raising interest rates will change inflation given these underlying factors. Powell said yes, but there are other sectors of the economy where demand needs to be moderated. Menendez said that raising interest rates is a blunt tool and they need to be mindful of the impact of these actions on unemployment. He asked what would happen to the unemployment rate of minorities. Powell said it depends on what happens to the overall unemployment rate. Menendez said he would venture to say that we would see what we have seen in the past, that crises disproportionately impact people of color. He said that this is why we need people of color at the Fed.

Sen. Tillis (R-NC) noted Warner's comments on spiraling energy prices and asked if Powell could talk about other commodities that are impacted by increased energy prices. Powell said that energy prices go into a lot of different places of the economy, and it is a big contributor to inflation. Tillis said that we are unilaterally hamstringing the Fed's response to inflation by artificially increasing the cost of energy in this country and if we recognized that we could transition to green energy with a sustainable glide path, we could have differentiated ourselves from other democracies. He asked Powell if a 100-point basis increase was completely off the table given his comments at the post-FOMC press conference. Powell said he would not take anything off the table. Tillis appreciated this and noted that they would have other questions for the record.

Chairman Brown (D-OH) noted the war in Ukraine, supply issues with China, and asked Powell about the strengths in the American economy and if he saw positive signs of prices stabilizing. Powell said that there is an accumulated balance of savings which supports spending in face of higher inflation, and he could not point to inflation coming down, but core PCE is a good indicator of where inflation is running, and it has moderated a bit. Brown wanted to clarify that Powell does not think the economy is at the point of recession. Powell did not see the risk of recession elevated right now, but he recognized that they were hard to predict. He said that the American economy is strong and financial conditions have tightened, so growth is slowing and there is risk in that. Brown then asked if Biden, the Congress, or Fed set gas prices. Powell said no. Brown asked what goes into the prices at the pump and what federal tools there are. Powell explained that prices are set by large oil producing countries and the refining spread, so the Fed's tools do not address this. Brown turned to the increase in housing and rent prices and asked about the impact on the economy when more spending goes to housing. Powell said that it would crowd out other kinds of spending and the housing prices have been unsustainably high. Brown said cryptocurrency values have collapsed by trillions, consumers losing money, and workers losing jobs. He noted that the Fed's monetary policy report highlights the risk of stablecoins and asked Powell to talk about the financial stability and monetary risks of these crypto assets and how they differ from the USD. Powell said that stablecoins are backed by reserve assets, so they are a lot like MMFs, but the world of stablecoins is new and emerging and does not have the 'fit for purpose' regulatory scheme that it needs. Brown asked about the Fed's role in crypto regulation according to Powell. Powell said that this is one of the issues, who has authority over this, and the Fed has jurisdiction over some banks, but what needs to be decided is who regulates this. He said that this is an area for Congress to deal with. Brown asked if the Fed is directly involved in regulatory actions regarding cryptocurrency absent congressional action. Powell responded that they regulate banks, so they have a say in what their banks and bank holding companies do with crypto assets on their balance sheets. Brown asked if that suggests that banks are cautious when it comes to crypto due to Fed oversight. Powell responded that banks are interested in exploring this space and the Fed is ensuring that this takes place in a safe and sound manner. He pointed to meetings with the FDIC and OCC on this and how this is not a substitute for a fit for purpose regulatory framework.