Monetary Policy and the State of the Economy
House Financial Services Committee
March 2, 2022

Semiannual Monetary Policy Report

Opening Statements

Chairwoman Waters (D-CA) condemned Russia's invasion of Ukraine and stood in solidarity with the Ukrainian people. She turned to Powell saying that since he last appeared before the committee, the economy has continued to boom and discussed the record job creation and increasing wages. Waters stated that housing is a key measure and driver of inflation and for too long, we have not addressed the shortfall in housing supply. She discussed how the lack of supply is the true driver of inflation, despite Republicans falsely blaming pandemic relief and stimulus as the cause of inflation. Waters noted the House passage of the Build Back Better Act (BBBA) and China competitiveness bill. She turned to CBDC and warned of Russia using a foreign coin for harm and hoped that the Fed would address this. Waters acknowledged that this is the first time a Fed Chair Pro Tempore has come before the committee and noted Senate Republicans stalling votes on Fed nominations in a time of great economic uncertainty. She said that now is not the time to stall these nominations.

Ranking Member McHenry (R-NC) responded to Waters that this is the House, and the Senate is responsible for nominations. He hoped that Democrats would withdraw their support for money included for Russia in the omnibus bill and voiced support for the Ukrainian people. McHenry discussed rising prices everywhere and referred to a KPMG study that showed that families are paying more at the grocery store. He stated that just telling people that they are better off, like the President is doing, is not helpful. McHenry was pleased to see the Fed reject the notion of personal accounts from the central bank and found it disturbing that some Democrats supported this. He sent a letter asking for clarity on this. McHenry thanked Powell for his leadership and time.

Rep. Himes (D-CT) said that the most effective tool against Putin has been sanctions and stated that we have been able to do this because of the dollar's standing as the world's reserve currency. He stated that we are well past time for CBDC in light of this and believed that now is the time to act.

Rep. Barr (R-KY) remarked that inflation has reached a four-decade high and said that tax and spend policies are much to blame. He said that the Fed pursued for too long an unconventional monetary policy that is hurting Americans via inflation.

Witness Testimony

[Honorable Jerome Powell](#)*, Chair Pro Tempore, Board of Governors of the Federal Reserve,* addressed Russia's attack on Ukraine saying that he is deeply concerned for the Ukrainian people and that the implications for the US economy are uncertain which the Fed will be monitoring. Powell reviewed the current economic situation reporting slowing in economic activity at the start of the year due to Omicron but that the slowing was brief. He continued that job gains were robust in January and that the labor market is extremely tight. Powell stated that labor force participation has ticked up, but labor supply has been subdued. He said that inflation is running well-above the 2% rate and acknowledged the increase of prices across many goods and services and acknowledged that this puts a hardship on Americans. Powell emphasized that the Fed will continue to monitor economic data and act appropriately. He expected inflation to continue to decline throughout the year but was attentive to the risks of potential further inflation increases. Powell turned to monetary policy that has and will continue to adapt to the economy and he expected the Fed to raise the target range for the Federal Funds Rate later this month. He stated that reducing the Fed balance sheet will commence after the process of raising interest rates has begun and will proceed in a predictable manner primarily through adjustments to reinvestments. Powell emphasized the importance of trust in the Fed by the American people.

Member Questions

Chairwoman Waters (D-CA) stated that the Fed is required to conduct monetary policy in accordance with its mandate and said that most inflation right now can be traced to supply chain issues related to the pandemic and that the Fed is not involved with the supply chain. She asked how the Fed is going to manage inflation with monetary policy if the Fed's tools are most useful with demand. Powell replied that Waters was correct that the Fed handles demand side conditions and said that the Fed has an important job of moving away from the current stimulative monetary policy settings. Waters continued that the Fed has limited tools to address inflation and noted that the monetary policy report addresses major shortages in housing supply. She then asked if investments in housing supply from Congress would help address inflation. Powell replied that housing prices are high for a number of reasons combined with very high demand. He stated that mortgage rates are going up and that will probably cool demand. Powell did not want to comment much further but did not doubt that there is a role for Congress in this space. Waters asked if there are other ways to manage inflation outside of monetary policy. Powell agreed, but said it was more so in a long-term way and stated that the Fed's tools can address inflation. Waters continued that Fed forecasters predict inflation to subside as supply chain issues are remedied but rent and housing increases will not be remedied as quickly. She emphasized the shortage of 7 million rental homes and 5 million homes for potential homebuyers and asked how concerned Powell was about the Fed's ability to contain inflation if Congress does not invest in housing. Powell replied that housing inflation is much more of an indicator of a tightness of the economy than a supply side problem. He said that higher interest rates should act to cool off the housing market over time.

Ranking Member McHenry (R-NC) said that everyone else on FOMC has opined about the March meeting and asked Powell's thoughts on the meeting. Powell replied that he would start by saying the economy is very strong and explained how they develop working plans in this meeting and adjust them with the reality of the economy. He continued that prior to the Ukraine invasion, he expected great progress of lowering the balance sheet, so the question now is adjusting this due to Ukraine. Powell continued that there is a lot of economic uncertainty around this, and we cannot know the full depth of this right now. He expected that the FOMC will make a plan on the balance sheet, but it will not be approved until a later meeting. Powell emphasized proceeding with caution as they consider the impact of the war in Ukraine on the economy. McHenry mentioned the 25-basis points Powell referred to and asked if that is the max the Fed could take on. Powell replied that the expectation is that inflation will peak and then come down but if inflation persists then the Fed would be more aggressive by raising the Federal Funds Rate by more than 25 basis points at a meeting or meetings. McHenry turned to the plan for the balance sheet that is to come and was hearing that the Fed is very interested in financial stability given what is happening right now and thought this was substantial news. He thanked Powell for being so forthright with this news.

Rep. Vargas (D-CA) asked what practical effects excluding Russia banks from SWIFT has on the Russian people. Powell noted that the Fed does not impose sanctions and only provides technical background support. He deferred these questions to the administration and the Treasury but said that the sanctions so far appear to be significant. Vargas questioned if the way around this is cryptocurrency and asked Powell to talk about this. Powell did not have any private information on this beyond what we are reading in the news but thought that it underscores the need for congressional action on a regulatory framework for digital finance, including cryptocurrency. Vargas asked about the CBDC. Powell referred to the paper issued by the Fed late last year seeking public comment to understand if the benefits of a US CBDC outweigh the costs. He looked forward to reading the comments and said that this is something the Fed will take a lot of time on. Powell talked about why people are using digital currencies whether for good or bad and said that unbacked digital currencies are a cause for speculation while a CBDC would have a wider view. He stressed that the Fed has not made a decision on this yet.

Rep. Wagner (R-MO) stated that much has changed since the last FOMC meeting referring to the Russian invasion of Ukraine. She discussed the steep increase in energy prices and the risk of pushing inflation even higher. Wagner asked how the war in Ukraine influences Powell's thinking when preparing for the next FOMC meeting. Powell replied that the impact from all the actions around the war are very uncertain and he thought it was appropriate to move ahead and to use the Fed's tools to bring down inflation. He said that given the situation, the Fed needs to move carefully and use its tools to add to financial stability. Wagner asked if the situation significantly alters his prior expectations. Powell replied that he did not think this was knowable at this time. Wagner asked about the Fed's role in implementing sanctions on Russia. Powell explained that sanctions are part of what the elected government does, and the Fed supervises to ensure that the banks obey the sanctions, and the Fed provides technical support. Wagner asked what actions the Fed has taken since the invasion. Powell replied that the Fed is on very high alert for cyberattacks, along with the banks they supervise, and they are in close contact with the Treasury and other central banks around the world. Wagner said that cybersecurity is a top priority and asked if the US financial system has the necessary capital and liquidity to handle any economic fallout from this war. Powell replied yes, he thought that the economy's ability to weather the shock of the pandemic was proof of this and pointed to high capital and liquidity levels at US banks. Wagner turned to the Keystone XL pipeline and Biden canceling its construction, she asked if this had been built would it have lowered energy prices. Powell responded that the Fed is not in charge of energy policy, but the laws of supply and demand do work.

Rep. San Nicolas (D-Guam) asked Powell to elaborate more on inflation and how the Fed changed its notion of it being transitory. Powell replied that the Fed initially looked at inflation as a supply shock and expected supply constraints to ease much more than they did. He continued that the Fed knew it could be wrong and the Fed pivoted quickly last year which is why the economy was healing in the last half of last year. San Nicolas continued that there is chatter that inflation is reflective of the Fed not taking policy action quick enough and how this could call into question the Fed's reputation. He asked Powell to talk about the credibility of the Fed. Powell responded that in December, the Fed discussed significant rate increases and market participants are reacting appropriately to the Fed's ongoing assessment. He assured that the Fed is committed to achieving price stability and the Fed will use its tools to do so. San Nicolas referred to the lessons learned from the 2008 crisis and asked Powell about any lessons the Fed has learned about its responsiveness to inflation. Powell replied that the inflation today is nothing we have experienced in decades as it is much higher but also different as it is coming from the goods sector. He said that we are still living through the inflation and are not in the position to be retrospective at this time.

Rep. Loudermilk (R-GA) held up a Ukrainian currency note and said that in the next few days, the fate of the Ukrainian currency will be determined. Loudermilk referred to a report by the San Francisco Fed saying that the American Rescue Plan (ARP) contributed to inflation. Powell did not want to comment on any specific law and replied that reactions to the pandemic has allowed the US economy to be the strongest economy in the world right now. Loudermilk feared that based on the SOTU speech, nothing is going to change and asked Powell if he still thinks inflation will be temporary if Congress and the Administration does not change any 2021 policies, especially regarding energy and spending. Powell replied that it does seem that the Fed will be withdrawing policy accommodation this year and noted that a lot of the fiscal policy spending has already happened so the impetus to growth will be declining, in fact negative, from fiscal policy as it stands now. He said that they are hoping for natural improvements in labor supply and supply chains for relief on inflation, but it is difficult to tell when that will happen.

Rep. Garcia (D-IL) discussed inflation being driven by bottlenecks in the supply chain and noted that corporations have bragged about raising prices. He asked Powell to explain how raising interest rates will lower prices. Powell replied that right now the Federal Funds Rate is still close to zero, which is a stimulative level, so that is not an appropriate level going forward which is why the Fed plans to engage in a series of rate increases throughout the year which will allow for moderation. He stated that the Fed does not do competition policy. Garcia continued on corporate concentration and referred to the July EO on competition and said that it has been a long time since a bank merger was blocked by regulators. He asked if it is appropriate to issue a moratorium on pending mergers as the Fed updates its framework for their review. Powell replied that the Fed has a statute that Congress has passed that gives the Fed the rules for evaluating potential mergers and acquisitions by banks and the Fed has a widely developed framework for that work which they are continuing to implement. He noted that any changes would come through legislation or new personnel at the Fed, neither of which they have right now. Garcia stated that frontline bank workers are a great resource to the Fed and thought that their voices should be included in the banking regulatory system. He asked Powell if the Fed will commit to adding bank workers to the Fed's various advisory councils. Powell thought that was an interesting question and said that there are many diverse representatives on the advisory councils, including those who represent workers, and the Fed seeks out representation from labor and those who live and work in LMI communities.

Rep. Kustoff (R-TN) said a number of people have been referencing back to inflation in the 70's and early 80's and asked if this was the proper historical reference when it came to inflation. Powell said that they are trying to avoid what happened in the 70s and noted that central banks have taken more responsibility for inflation. Kustoff asked Powell what he would tell his constituents about the rising costs if he were a congressman. Powell replied that we are seeing inflation everywhere in the world and they are working to get it under control. Kustoff referred to the next FOMC meeting and inferred that if Russia had not invaded Ukraine, the Fed would be more aggressive as it relates to the balance sheet and rate hikes. He asked Powell if his inference was correct. Powell said that remains to be seen and that the Fed will agree on a plan to increase rates and shrink the balance sheet but the time of implementation of that plan is unclear right now. Kustoff followed up on Wagner's questions on cyber and asked what degree of confidence Powell had in US banks' ability to thwart cyber-attacks from Russia if Russia were to retaliate. Powell replied that anything the banks can do to protect against cyber, the banks are doing. He stated that the Fed is on very high alert for this, but it is hard to say what would happen.

Rep. Maloney (D-NY) felt deeply that the Fed should not be objected to the political stunts in the Senate and urged the Senate to confirm the Fed nominees. She turned to the uneven economic recovery from the pandemic and addressed the black unemployment rate that is double the rate for white unemployment. Referring to the recent monetary report, Maloney asked what the drop in labor participation means for the economy from a macro and micro perspective. Powell replied that our labor force is smaller which has consequences, including labor shortages and the potential output of the country being lower. He noted a wave of retirements as well as people that want to come back to work but cannot due to childcare or other reasons. Powell noted that this was unexpected and is contributing to inflation and the current labor shortage. Maloney turned to Russia and China trading within their own currencies without the dollar and asked what impact this would have on the US economy. Powell replied that the US does benefit from the dollar being the reserve currency and said that the effects of what Maloney pointed to would not be felt right away. He emphasized that we need to continue to make the dollar attractive and predicted no short-term effects. Powell added that it is possible to have more than one reserve currency, but it is unclear at this time.

Rep. Lucas (R-OK) asked about the difficulty of predicting the implications of locking Russia out of SWIFT and the effect on the US. Powell replied that he cannot comment on sanctions and said that with big actions like this, there can be unintended consequences, but we do not know what those are right now. Powell said that there will not be direct effects since the US does not have large interactions with the Russian economy, but there could possibly be second-hand effects. Lucas turned to the high cost of oil and asked Powell to describe the range of the Fed's projections on this and how this will impact inflation. Powell replied that the price of oil depends on events that have not happened yet but noted that the price of oil has risen in the past few days. He said that is a price level change and the question is if this will lead to increased inflation but said the Fed will use its tools to ensure that this is not the case. Lucas talked about the importance of producing oil and gas domestically. He asked Powell to discuss how important it is to have liquid markets. Powell replied that our markets have been functioning well and that there is a great deal of liquidity.

Rep. Velazquez (D-NY) referred to the upcoming FOMC meeting and asked how the Fed is coordinating with other central banks around the world given the Ukraine invasion when considering changes to the interest policy in the US. Powell replied that there is a meeting with all of these central banks on Monday and said that the foreign events are top of mind right now and it is helpful to understand the European perspective. Velazquez referred to the Fed's publication of the Fed's Small Business Credit Survey which found that small business applicants using online lenders reported more challenges with their financing needs. She said that the top challenges faced by online lenders were high interest rates and unfavorable repayment terms and asked Powell to explain the report's finding and what it could mean for small businesses that utilize online lenders. Powell said that the survey did raise some interesting questions and the Fed could come back to her office on this. Velazquez said that Congress could act to provide relief to ensure that businesses are not short changed when it comes to accessing capital. She then referred to Acting Comptroller Hsu recently stating that there would be joint notice of proposed rulemaking to update the CRA. Velazquez asked Powell if the Fed agreed this was possible and when he expected this to occur. Powell replied that the Fed is working very closely with the other agencies on this ANPR and said that the timing is soon. Velazquez referred to a note published by a Credit Suisse strategist stating that the decision to exclude certain Russian banks from SWIFT could result in missed payments and giant overdraft with significant consequences for money markets thereby forcing the Fed and other central banks to intervene to enhance liquidity to address missed payments. She asked Powell if he saw this as a likely scenario. Powell said that given the relatively low exposure to Russia, he did not see this as a likely outcome.

Rep. Sessions (R-TX) referred to the monetary report and said that the bottom line is that we cannot get people back to work which turns into a low labor supply which causes bottlenecks. He moved to the federal government and asked where it is on employees coming back to work. Powell was not sure but said the Fed is close to the beginning of the process. Sessions said we need the Fed's robustness and its robustness within the administration to say that inflation is a meaningful short-term hindrance to the economy. He thought that the Democrats have encouraged inflation and that we need to have serious changes. Sessions wanted Powell to have a greater voice on this and to make the Democrats understand that they are continuing inflation. He asked how Congress could help Powell. Powell thought the Fed is well equipped and will use its tools but said that help on supply side constraints and energy prices would really help.

Rep. Scott (D-GA) was very worried about the Russian invasion of Ukraine and the impact it has on global trade and food security. He said we could very well be on the verge of a hunger crisis all over the world. Scott continued that Russia produces ⅔ of the 20 million metric tons of fertilizer used to grow corn and wheat around the world. He said Russia and Ukraine are the biggest exporters of wheat, corn, and barley, making this impact a crisis of soaring magnitude. Scott emphasized that the disruptions and rising prices from these commodities will threaten food stability and social stability and asked to what extent this would create a financial stability risk in the US and abroad. Powell thought Scott's point is well taken and saw this getting into food prices and supply. He said the Fed does not really have the tools to address this and that this is more of something for Congress and the Biden Administration. Scott said that we cannot let the world get into this desperate situation and hoped that free nations can come together to realize that this is not just Ukraine's fight but everyone's fight.

Rep. Posey (R-FL) asked if the Fed continues to deny that it is monetizing debt and if the Fed should have acted sooner to address inflation. Powell replied that monetizing debt was not the Fed's intention, and that the Fed did not think of this as a cause of inflation. Powell added that very high demand in the goods sector and unforeseen supply constraints are the drivers of inflation and that the Fed will deal with it. Posey noted that he previously asked Powell about the

Fed’s involvement on stress tests related to climate change and referred to Sarah Bloom Raskin’s nomination and her support of regulation related to climate change. He asked Powell to reaffirm that the climate data stress test first proposed by the Federal Reserve will be used for regulatory purposes and not driving investment away from traditional energy sources. Powell corrected that they are called climate stress scenarios and the idea is to allow regulators and financial institutions to understand better how climate financial risks have any implications for the banks. He said it is not the Fed’s job to tell banks which companies to lend to. Posey was glad to hear that and asked him to guarantee that the data would not be used for any regulatory purposes in any way whatsoever. Powell said the scenarios have not even started yet and they are not going to be used to put further regulatory or capital requirements on banks.

Rep. Perlmutter (D-CO) asked if the Fed’s monetary policy helped reduce the unemployment rate. Powell replied yes. Perlmutter asked if we got the recession we anticipated going into the pandemic. Powell replied no. Perlmutter said that the Fed and central banks along with Congress took some dramatic steps to build a better America to help us get out of what it looked to be a recession. He wanted to talk about how, despite inflation, we have lower unemployment and a bigger economy. Perlmutter said that 64 other countries have higher inflation than America. He thanked Powell for everything he has done to keep the country out of a recession.

Rep. Davidson (R-OH) discussed the inability of the Fed to stabilize its balance sheet and turned to how this has come at the expense of sound money. He said that in light of the fact that we have seen substantial changes in the rate of inflation, he asked Powell if the US dollar still is sound money and what the threats to it are. Powell replied that the US dollar is still sound money and there is no present threat at this time of the dollar being displaced as the reserve currency. Davidson said that historically, there have been multiple reserve currencies and talked about the Fed’s role in stable prices and full employment. He wondered if Powell thought labor force participation is trending the right way and noted that there is also a lot of pressure on regulators to do ESG. Davidson asked what the Fed and Congress can do to strike those balances on ESG and full employment. Powell replied that most members of the FOMC think we are in labor market conditions that are consistent with maximum employment as it relates to price stability.

Rep. Foster (D-IL) asked if Powell remembered the misery index. Powell did. Foster asked Powell to make a rough estimate of how much inflation is attributed to goods. Powell replied that the goods sector had zero inflation for 25 years and while he did not have a number, he said it was big. Foster turned to the labor shortage and how it relates to comprehensive immigration reform. He asked if there are any studies that show that comprehensive immigration reform would be a huge plus in the low and high skill sectors. Powell referred to the trend five years ago from legal immigration and where we are now, noting that lower immigration is definitely part of the story of the labor shortage. Foster then asked about the time frame for unwinding the balance sheet. Powell replied that the way it was done last time was with a cap on the runoff and this discussion has not happened yet. He said it turns out that the level of the cap really does not matter for the time frame, and it usually takes three years to get back to where they are trying to get to. Powell explained that the Fed looks at the size of the economy and banking system to set the level of reserves needed. Foster asked Powell about anything he is worried about regarding Russia and stepping in with regard to financial assistance for countries near this conflict. Powell replied that the Fed has tools to deal with stresses should they emerge, and markets are functioning so tools have not been needed yet.

Rep. Luetkemeyer (R-MO) said that China is watching all of the actions of the Russia-Ukraine crisis very carefully and we need to be ready for the Chinese invasion of Taiwan. He asked if Powell is thinking about potential actions the Fed would take or suggest to the White House if this were to happen. Powell answered that those questions are dealt with at the National Security Council and the Treasury Department mostly. He mentioned that the Fed models alternative scenarios. Luetkemeyer moved to inflation and thought that there are a lot of things outside the Fed's control that affected inflation. He said that the Fed does not have control over the supply chain, regulation, the energy sector, etc., so his concern is that when Powell said the Fed is trying to help with inflation, this is really something for Congress and the administration. Powell thought that was an interesting breakdown and welcomed any help with supply side issues.

Rep. Lawson (D–FL) talked about the high rate of bank branch closures and asked to what extent the Fed has thought about these banks regarding the CRA. Powell thought this was a focus of the CRA and one to strengthen in the proposal. He understood the importance of bank presence and service in a community. Lawson asked if interest rates are going to rise in response to inflation. Powell replied that the labor market is tight, and inflation is running high above the target and the Fed expects to move its policy rate up in a series of increases this year. He said the market has accepted this. Lawson asked if we are in a better situation to deal with inflation now compared to the past due to rising wages. Powell replied that this is strong, high inflation and it is important to get on top of it which is the plan. He thought we were in a good place at least because of the good health of the labor market and strength of the economy to take on the rate increases.

Rep. Huizenga (R-MI) asked if spending has contributed to high inflation. Powell replied that a number of things have contributed to inflation, including spending. Huizenga continued that many have warned about this situation for some time and rumors of war may increase the debt. He worried that fiscal spending habits are putting Powell and others in a corner and asked Powell to comment. Powell would not comment on fiscal policy. Huizenga moved on monetary policy and asked why the monetary policy rules section of the Fed's Monetary Policy Report was omitted this year. Powell did not realize this and said that we did not have this in July of 2020, and it will be included in the next one. He added that sometimes it is included and sometimes it is not. Powell said that no committee has actually used rules as a way of setting policy. Huizenga said it would have been helpful to inform the market of the Fed's approach.

Rep. Casten (D-IL) was concerned that the climate scenarios have not been done yet and said that NOAA and NASA came out with a recent report on rising sea levels in Florida and asked if Fannie and Freddie are changing their lending standards in response to risks in those communities and elsewhere. Powell did not know. Casten asked that because a CFTC report on managing climate risk in the financial sector noted that the higher risk an area is for coastal flooding, the more likely the commercial banks will be offloading their risks onto Fannie and Freddie. He asked Powell how they are isolating the balance sheet from that risk exposure if sophisticated players are seeing this risk. Powell replied that this is a likely outcome, private lenders will move away from that lending and the government will make people move away from the coast or pick up the tab. Casten moved away from offloading risk on to the taxpayer and asked Powell to what degree the Fed or the Treasury has the ability to monitor this transfer of risk from more sophisticated folks in the private sector to the less sophisticated folks. Powell had to think about this and would look into it. Casten said this also applies to fire risk and pointed to his and Schatz's legislation on climate risk.

Rep. Barr (R-KY) focused on monetary policy and knew that Powell understands that inflation has human cost. He stated that Republicans cautioned that inflation was not transitory long before the Fed realized this and asked if the FOMC had learned from its mistake and learned that unnecessary unconventional monetary policy is harmful to the economy. Powell replied that the main lesson learned is that the supply chain constraints were not as transitory as expected and hoped. He added that it was expected that these constraints would be fixed long ago. Powell answered that they had an expectation and thought that there was a chance that the Fed was wrong and by the time the Fed pivoted, the economy was moving really fast. Barr asked Powell how quickly he expected a higher funds rate to bring down inflation. Powell expected the Fed Funds Rate to go up in two weeks and the Fed will move carefully. Barr said that to break the current pace of inflation, the Fed has few options. He then moved to climate stress testing and asked if Powell will use this for capital surcharges on banks serving fossil energy companies. Powell replied that the intent of the scenarios is to assist the financial institutions to understand the risks.

Rep. Lynch (D-MA) wanted to ask about SWIFT and was curious if any of the Fed's risk analyses look at what would happen if we completely banned Russian banks from SWIFT and SWIFT became a target for a cyber-attack. He asked if we felt comfortable that the network could withstand a state-sponsored assault. Powell replied that he is not the right person to answer this. Lynch referred to the Fed report on CBDC and that it pushed responsibility back to Congress to resolve issues related to a Fed CBDC. He knew about the working group at MIT and the Boston Fed that is working on this as well and was not sure that Congress is equipped alone to make key decisions on the architecture, shape, and form of any CBDC for the US. Lynch thought that Congress is relying on the Fed and Treasury to help Congress and hoped for more instruction from the Fed paper. He asked about the potential for collaboration instead of pushing the responsibility onto Congress. Powell replied that technical experimentation is happening at the Boston Fed which is separate from the policy questions. He said that the Fed will be working on this project in coming years, building trust in Congress and the public, and then making recommendations if that happens. Powell said that the existing statute does not really contemplate a CBDC so they would need authorizing legislation. Lynch replied that the concern is that the security and architecture of the system will guide policy, so he thought they needed to work together. Powell agreed.

Rep. Williams (R-TX) said that Powell has to deal with inflation and the winding down of the balance sheet while monitoring the Ukraine situation. He asked how the Fed will get inflation under control without hampering growth or sending the economy into recession. Powell replied that the Fed will move with care and will raise the Fed Fund Rate to shrink the balance sheet over time. He added that we have not been in this situation in a long time, but we know how history has played out in the past. Williams asked, once interest rates are brought up, what Fed tools will be used to ensure that the Fed's actions are felt with as little delay as possible to achieve price stability. Powell said that in our time, whenever the Fed signals a rise in interest rates, the markets react almost immediately so the decisions get into financial conditions very quickly but it does take time to go into economic activity. Williams talked about time consuming regulations that have come out of the Biden Administration and asked Powell to discuss the correlation between a business's productivity and burden of regulation. Powell said it is difficult to estimate this and said that we should strive to have balanced regulation.

Rep. Torres (D-NY) asked if there is any risk that raising interest rates will backfire given the crisis in Ukraine and if there is a risk of stagflation. Powell replied that the hope is that raising interest rates will stabilize prices while supporting economic expansion but acknowledged that there are always risks. Torres pointed to potential retaliatory cyber-attacks from Russia given the sanctions on them and asked how much the Fed invests in its own cybersecurity annually. Powell replied that he does not have a number, but the amount is substantial. Torres turned to SWIFT and asked how quickly could Russia and China come up with an alternative messaging service to SWIFT. Powell said that this is not something one can create overnight, he knew that China had their own system and thought this was a question for the longer term. Torres turned to stablecoin and many being tied to the US dollar and said that the US does not have a CBDC of its own. He asked if a US backed stablecoin can play a role in out-competing China when it comes to digital currencies. Powell replied that there may well be a role for well-regulated stablecoins and it could possibly help with competition with China. Torres turned to the CRA and redlining and asked if race should be considered in the CRA. Powell replied that this is something the OCC, FDIC, and Fed have been considering.

Rep. Hill (R-AR) referred to the rules section in the Fed monetary policy report and thought it would be best if the section were included given that the rules are still utilized at FOMC meetings. He asked if Powell was aware of what the Taylor Rule would indicate now given the inflation today. Powell was aware of this. Hill raised the subject of the Fed mandate and how there has been legislation in the past to reconsider the Fed mandate and thought that we really need to focus on price stability. He proposed going back to price stability as the sole mandate and noted how other countries have this. Powell was aware of this and said this was a matter for Congress.

Rep. Adams (D-NC) asked if the Fed would be better able to serve the country if it had a fully staffed Board of Governors. Powell did not want to comment on this directly as a nominee awaiting confirmation. Adams turned to the Russian invasion of Ukraine discussing the potential systemic risks to global markets and mechanisms to keep Russia isolated from the global economy for the duration of its illegal aggression, but she worried about the potential systemic risks here at home. She asked if there are any US institutions the Fed is monitoring that have outsized default risk as it pertains to the freezes on Russian assets. Powell replied no, saying that our financial institutions have relatively little exposure to Russia, and it would need to be a second order thing where a foreign financial institution has both exposure to the US and Russia and the Fed is monitoring this, but does not see it as a primary risk. Adams referred to the November monetary report and asked Powell to discuss the interconnection between rate hikes and freeze of Russian assets as it relates to the prices of certain commodities. Powell replied that commodity prices are generally set on the world market by supply and demand and that as long as we are in a sensitive phase of events in Eastern Europe, the Fed will move extra carefully but has the intention of raising interest rates over the year to ease inflation.

Rep. Gonzalez (R-OH) asked how Powell viewed a longer-term military engagement in Eastern Europe and the effect it has on rate and balance sheet policy. Powell agreed that this event is a game changer that will be with us for a long time and said that there are events yet to come so we do not know the effects yet. He said it is too early to say but not too early to imagine or assess. Gonzalez asked how a company magically lowers its cost referring to Biden's remarks on lowering cost without lowering wages. Powell replied that he will not comment on anything the President says but that companies are constantly managing costs. Gonzalez shifted to crypto and whether they represent a good vehicle for sanctions avoidance. He asked Powell if, generally speaking, a system where transactions occur on a public ledger with speed limits is a good or bad system to launder money or avoid sanctions. Powell was reluctant to comment on anything relating to sanctions but said that there is an important balance to strike in protecting privacy and the ability for law enforcement to track transactions.

Rep. Dean (D-PA) asked Powell to flesh out why inflation was worse in the US because our economy is stronger. Powell responded that other advanced economies are experiencing very high inflation and inflation is a bit higher in the US because we have higher output, unlike other countries, due to monetary and fiscal policy and other factors. Dean asked Powell what impact consumers will begin to see with incremental rate hikes. Powell said that these would be small rate increases every seven weeks and as the policy rate moves up, interest rates for loans and mortgages will go up and demand will go down. Dean was also particularly concerned about the impact of increased market consolidation on inflation and pointed to consolidation in the meat industry. She asked to what extent Powell would attribute supply chain fragility and recent prices increase to market concentration. Powell deferred to the competition authorities on this but said that inflation is mainly a macro-economic phenomenon which does not link very well, in the aggregate, to concentration. He noted that sometimes concentration can drive lower prices, but in some industries, it may be the case that they could raise prices.

Rep. Mooney (R-WV) stated that inflation remains a concern for his constituents and focused on the effect inflation has on savings like savings accounts, money market funds, and certificates of deposit. Mooney continued that Americans are losing their money over time and asked Powell how concerned he was about the effects of inflation and negative savings yields on the long-term health of our economic recovery. Powell replied that inflation falls heavily on those who rely on fixed incomes which is one of the reasons why we need to lower inflation which the Fed is working on. Mooney was concerned that our current economic environment will discourage savings altogether and asked Powell if he was also concerned about this. Powell replied that this was interesting and noted that families' balance sheets are at record highs right now due to savings from the pandemic but agreed that high inflation could be a disincentive. Mooney thought we should be careful to ensure that monetary policy encourages savings.

Rep. Garcia (D-TX) focused on housing prices skyrocketing and how it is expected that these prices are not expected to cool compared to supply restrictions. She asked if the Fed is looking at alternative plans in the case that housing prices do not cool with inflation. Powell replied that to the extent that housing prices increase at a lower rate, it is largely a reflection of supply and demand. He said that the Fed will raise interest rates and mortgage rates will go up, so prices go up more slowly and demand slows. Garcia asked if we will get back to pre-pandemic levels of price. Powell replied no and that the Fed is not trying to drive prices down but manage future prices. Garcia asked Powell about the lack of investment in public housing and how that could cause inflation to be a long-term problem. Powell replied that the Fed tools do not interact with affordable housing but knew that economic research shows that high housing costs for workers hinders the ability to live close to where you work. Garcia asked what inflation does to the poverty rate and if it rises with inflation. Powell replied that the impact of inflation would have offsetting effects but to the extent that wages are not keeping up with inflation, it could potentially increase poverty but people going back to work would decrease poverty.

The Semiannual Monetary Policy Report to the Congress
Senate Committee on Banking, Housing, and Urban Affairs
March 3, 2022

Opening Statements

Chair Brown (D-OH) acknowledged the courage of Ukrainians fighting for their homeland and supported the fight for democracy. He discussed the fragility of the economy one year ago and said that 2021, against the odds, was a record year of economic growth. Brown discussed the healthy balance sheets of American families due to the American Rescue Plan. He spoke about the fear and exhaustion families feel coming out of the pandemic and dealing with the current inflation. Brown stated that bringing supply chains to America will help ease inflation and emphasized bringing back domestic research and development. He said that America's large corporations did the best out of everyone in 2021 and took the opportunity to raise prices during this economy. Brown emphasized that raising prices is always a choice. He referred to the Fed nominations saying that we need to ensure that the Fed is operating at full capacity. Brown highlighted Sarah Bloom Raskin's expertise in cybersecurity and said that everything needs to be done to confirm her as well as the other nominees.

Ranking Member Toomey (R-PA) endorsed Brown's statements on Ukraine and hoped to process Powell's nomination soon. He knew that until confirmation, the FOMC can still work to ease inflation. Toomey stated that the current, zero-interest rate monetary policy made sense but no longer does. He explained that inflation can be blamed on spending reckless amounts of money chasing too many goods and urged acting with urgency to get inflation under control. Toomey was also troubled by the increased use of regulators to address issues outside of their jurisdiction and referred to the Fed's climate scenario testing along with other liberal proposals. He believed that these are not within the Fed's mandates and strongly thought about reforming the structure of the Fed to ensure that the Fed sticks to its mandate. Toomey believed that it is Congress's responsibility to ensure that the Fed does not become a political actor.

Witness Testimony

Honorable Jerome Powell, ***Chair Pro Tempore, Board of Governors of the Federal Reserve,*** addressed Russia's attack on Ukraine saying that he is deeply concerned for the Ukrainian people and that the implications for the US economy are uncertain which the Fed will be monitoring. Powell reviewed the current economic situation reporting slowing in economic activity at the start of the year due to Omicron but that the slowing was brief. He continued that job gains were robust in January and that the labor market is extremely tight. Powell stated that labor force participation has ticked up, but labor supply has been subdued. He said that inflation is running well-above the 2% rate and acknowledged the increase of prices across many goods and services and acknowledged that this puts a hardship on Americans. Powell emphasized that the Fed will continue to monitor economic data and act appropriately. He expected inflation to continue to decline throughout the year but was attentive to the risks of potential further inflation increases. Powell turned to monetary policy that has and will continue to adapt to the economy and he expected the Fed to raise the target range for the Federal Funds Rate later this month. He stated that reducing the Fed balance sheet will commence after the process of raising interest rates has begun and will proceed in a predictable manner primarily through adjustments to reinvestments. Powell emphasized the importance of trust in the Fed by the American people.

Member Questions

Chair Brown (D-OH) referred to the November joint rule by the OCC, FDIC, and Fed on incident notification in the case of a cyber attack and asked how the Fed reacts when it receives a report of a cyber attack. Powell replied that the Fed has not received any reports but is on high alert given the situation in Ukraine. Brown thought it was important to focus on financial institutions and repel against cyber attacks and was hopeful that the Fed will make the comments public so businesses understand the importance of cybersecurity. He continued that Russia's attacks could go beyond cyber and asked how the Fed is evaluating the economic uncertainty caused by Putin and how to mitigate risks. Powell replied that the Fed is watching the situation very carefully and emphasized the uncertainty. He knew that commodity prices have moved up significantly so far which will move its way through the US economy and there could be an upward pressure on inflation and risk sentiment could decline. Powell echoed that we need to be alert and nimble. Brown referred to the February monetary policy report and how it detailed that the lowest wage workers are doing well right now. He asked what the Fed will do to ensure that raising interest rates do not affect job growth. Powell explained that wages are at historic highs and the unemployment rate is at 4% so it is a great time for workers in the lowest quartile. He said high inflation is the problem being faced and the biggest risk to sustaining a long expansion, so the single most important thing the Fed can do is maintain price stability. Brown asked if testing and vaccines being available increases the labor force. Powell said he was not an expert but agreed. Brown asked if available childcare also increases the labor force. Powell replied that research does show that.

Ranking Member Toomey (R-PA) asked if the FOMC is fully capable of determining economic policy and if the Fed is able to implement monetary policy right now. Powell replied yes and that everyone is doing their jobs. Toomey continued that the war in Ukraine has changed the risk profile and probably increases the risk for downward revisions in growth, so he wanted Powell to share the importance of fighting inflation when growth is less robust than it is now. Powell replied that there is a lot of uncertainty on the supply and demand side but also said that families' balance sheets are very strong, so the outcome is uncertain. He discussed raising interest rates at the March meeting and throughout the year and said that in this sensitive time, they need to be careful in how they conduct policy. Toomey hoped that the actual practice going forward at the Fed is consistent with the need for price stability as a pre-condition for the wellbeing of lowest income Americans. He shifted to ask Powell if it is consistent with the statutory made of the regional Fed banks to engage in political advocacy. Powell replied that the reserve banks have some freedom separate from the Board to conduct research and thought this was a feature of the system for a long time. He echoed and shared the view that everything the Fed does needs to be linked clearly to the Fed mandate. Toomey said that amending a state constitution for how it pays for education has nothing to do with the Fed mandate. He moved to Fed climate scenario testing and asked if it is among the responsibilities of the Fed to determine the pace at which the economy transitions to being carbon free. Powell said no.

Sen. Tester (D-MT) remarked that inflation is on everyone's minds and saw consolidation in the marketplace being a big deal particularly in the meat industry. He emphasized the need for competition for capitalism to work and said there does not seem to be a lot of competition. Tester talked about consolidation generally, whether it drives prices up, and asked if inserting more competition in the marketplace would help consumers. Powell replied that the Fed is not responsible for competition policy but said at the aggregate level, the connection between concentration and inflation is unclear. Tester asked if Congress can pay particular attention to anything with regard to inflation and mentioned trucking and shipping. Powell thought that over time, there are things Congress could do and in the near term it is down to the private sector and getting supply chains untangled. He agreed that we need more labor supply and semiconductors. On trucking, Powell said we are short workers and there must be ways to address this, but some of it is voluntary on the part of people who have decided to retire early.

Sen. Shelby (R-AL) said that millions of people are watching this hearing and what Powell says and does. He wanted to talk about price stability and asked Powell to explain what that means to the average person. Powell explained that price stability means people can go about their daily lives without thinking much about inflation. He said inflation affects everyone and when it goes up, real wages are declining which is why we need to get inflation under control. Shelby talked about the gifted economists at the Fed and said that the Fed missed the inflation trends. He asked if this occurred due to not having the right data or ignoring the data. Powell replied that it is not about data at all and when inflation started to move up quickly, economists looked at it as a supply shock that would come and go. By the middle of last year, he said the Fed moved away from this but in hindsight they should have moved away from that more quickly. Powell said there was really no precedent for this and the Fed will use its tools to address inflation. Shelby talked about former Fed Chair Volcker squeezing inflation out at all costs and asked if the Fed is prepared to do what it takes to get inflation under control. Powell knew Volcker and hoped history will record that the answer to Shelby's question is yes under Powell's leadership.

Sen. Menendez (D-NJ) believed that sanctions on the Russian Central Bank will have great effect and asked Powell to explain these sanctions in layman's terms. Powell replied that sanctions are through the Treasury but explained that different currencies are traded around the globe and the value matters when you are trying to buy something. He said the Ruble weakened dramatically through this and the sanctions make it difficult for the Russian Central Bank to do its job and support the Ruble. Menendez asked if it was correct that the sanctions mean that Putin cannot access reserves to help him fight the war. Powell said yes. Menendez emphasized confirming the Fed nominees and addressed the supply crisis asking for an update on persistent supply chain issues. Powell explained that imported or manufactured goods are contributing to inflation because of high shipping costs and delays. He said we are seeing small progress on this, but the Ukraine situation is not going to help at all with the current shipping issues. Powell said we have been waiting for supply issues to ease but still have not seen this yet. He also mentioned the labor supply problem and that getting past the pandemic will help with this. Menendez asked if strengthening supply chains will help ease inflation in the long term. Powell said it would help in the near term. Menendez said we are facing a dire labor shortage and referred to the monetary policy report saying that immigrants are ready and willing to fill these jobs. He asked if there was a process for immigrants to go through that would allow them to work and pay taxes that would help alleviate the labor shortage. Powell replied that the Fed does not handle immigration policy but said that immigrants have historically contributed greatly to the labor market.

Sen. Crapo (R-ID) asked if Powell can do his job to the full effect even as Pro Tempore. Powell said yes. Crapo hoped to confirm Powell and the other nominees soon. He discussed that in addition to the Fed mandate, some have argued that the Fed should be able to allocate and control capital to certain sectors and asked if the Fed should be able to do this. Powell replied no. Crapo focused on oil as it relates to the war in Ukraine and asked if the strains on the oil and energy markets will act to push inflation even higher or an impediment to control inflation. Powell said yes regarding the near term and that the question is what the extent of this is and the persistence of it.

Sen. Warner (D-VA) picked up on the issues Crapo raised and asked if it was the responsibility of the Fed to evaluate systemic risks to the economy. Powell said yes. Warner continued that the Fed has determined that climate risks are appropriate for review in terms of systemic risks and appreciated Powell recognizing this. Warner was very concerned about the war in Ukraine and was proud of the Biden Administration for working in a unified manner with our European allies. On the SWIFT sanctions, he thought they were good, but he was concerned about some of the leakage that could take place with digital currencies. He was concerned about the exchanges and DeFi and asked about the possibility of Putin using digital payments to avoid sanctions and transfer assets out. Powell said this is at the heart of what the Treasury is doing, and he is not privy to any private information other than what is public. He thought this concern underscores the need to have a strong regulatory regime that permits appropriate activity and prevents illegal activity. Powell said that a strong legal framework for crypto could prevent it from being used for illicit activities. Warner stated that there is no clear regulatory overview, but it is necessary to look at given the amount of capital flows.

Sen. Scott (R-SC) was concerned about the Fed staying on mission and was opposed to the Fed going in the direction of ESG. He wanted the Fed to continue working on easing inflation and said that inflation can be tied to bad decisions made by Biden and the Democrats, not Russia. Scott thought specifically about those on fixed incomes during these inflationary times and was happy to hear that wages are up but so is inflation. He wanted Powell to talk about the scenarios the Fed is going through to address inflation. Powell replied that the Fed has tools to bring inflation rates down by rising interest rates over time which will ultimately slow demand while economic activity continues. He said low interest rates are inappropriate at the moment due to the strength of the economy right now. Scott asked about the increments that he would consider to bring spending down while not over challenging the economy. Powell replied that during this sensitive time, he would recommend a one quarter of one percent increase at the March meeting and if we do not see inflation behave as expected, then the Fed is prepared to raise it more than that amount in the next meeting or future meetings.

Sen. Warren (D-MA) said that right now our country is trying to enforce strong sanctions against Russia and address the high inflation and price gouging by corporations. She said that Republicans' refusal to confirm the Fed nominees is shameful and risky. Warren turned to the strong economic sanctions against Russia and while these are powerful, she said that Russia can dodge some of these sanctions through cryptocurrency. She talked about ransomware and how actors get paid through crypto like Bitcoin. Warren rhetorically asked Powell if he knew who the world leader in ransomware attacks is and said the answer is Russia. She continued that Russia is the world expert in moving money through illicit channels and asked if other countries are using crypto to evade sanctions like North Korea, Iran, and Venezuela. Powell said the Fed is not responsible for this but has read about it in public sources. Warren believed that the answer is yes and said that crypto takes the steam out of sanctions. She said that theoretically the crypto industry must enforce sanctions and asked Powell if the crypto industry is doing this. Powell replied that he has read that some crypto companies are reluctant to do this. Warren said that the crypto industry is not doing this and said this is how North Korea has been able to fund its missiles. Warren continued that millions of unregulated transactions are taking place, and while sanctions can make it difficult for Russia to move around in the traditional finance sector, she believed that crypto is providing a new way for countries to protect themselves against sanctions and emphasized getting crypto rules in place.

Sen. Moran (R-KS) asked about the relationship between the balance sheet and interest rate decisions. Powell thought about the interest rate as the active tool of monetary policy and using the balance sheet to buy assets to drive down rates. He continued that the FOMC plans to raise interest rates and shrink the balance sheet. Powell said that the FOMC wants to decide a path for the balance sheet. Moran asked about the consequences of changing the balance sheet and raising interest rates and the reason for doing this at the same time. Powell said this would provide support for the economy and the interest rates affect the short term while quantitative easing addresses more of the long term. Moran asked in regard to interest rates, if it matters what tools are used and if a certain sector is impacted more. Powell said not really, and interest rates are raised overnight. He said you can always affect longer term interest rates, but for most people, the short term is more important. Moran asked how inflation is related to energy prices. Powell replied that core inflation excludes inflation from energy and food prices as they are quite volatile, and he believed this inflation was close to a couple of percent. Moran said that increased interest rates and energy prices have a significant impact on those who grow our food, make our clothes, and provide energy. He noted that commodity prices have not kept up with the cost of production. Powell was aware of this and acknowledged that this shock is going to be felt by the agriculture industry which the Fed is monitoring.

Sen. Smith (D-MN) appreciated Moran asking about the specifics of how the mechanics of these economics actually work as they are so complex. She thought about inflation in the context of the workforce and said that this is the biggest challenge in Minnesota right now. Smith talked about the record low percentage of women participating in the workforce and said that there is a real issue with childcare preventing women from coming back to the workforce. She asked about the impact that investing in childcare would have on economic conditions and women's participation. Powell replied that it would depend on the program but said that there is research on this, and the results are positive. Smith continued on about a public investment in childcare and asked if this would contribute to inflation. Powell replied that if this contributed to the workforce over time, it would not contribute to inflation. Smith asked about the impact on the workforce shortage if the Fed raises interest rates. Powell answered that the Fed's tools go to demand over supply and said that a lot can be done to lower demand and equalize it with supply. He explained that rising interest rates will slow demand over time and referred to the housing and automobile markets.

Sen. Daines (R-MT) stated that energy prices and inflation are interconnected and thought that the rising price of energy is a sneak peek of what will happen if we do not make energy in America. He talked about the unprecedented speed the Fed worked at to cut rates in the midst of the pandemic and asked if the Fed has looked at what impact a $125 barrel of oil will have on inflation and growth. Powell replied yes and that the Fed runs simulations all the time. He talked about the approach the Fed has when looking at this. Daines asked what kind of impact the Fed is seeing with its models. Powell replied that if a barrel, for example, is up $50 from the last quarter last year, for every $10, it accounts for 2/10 of inflation. Powell emphasized that what matters most is the length of this persistence. Daines was very concerned about where this might go and shifted to the Fed balance sheet. He asked how unwinding the balance sheet as a tool to fight inflation works in comparison to raising interest rates. Powell replied that the calculation would be crude as the signaling value of QE is a big part of it, but he saw the balance sheet as shrinking in the background and raising interest rates as the active tool.

Sen. Van Hollen (D-MD) stated that Powell is in a tough position given all of the different variables occurring like inflation, the war in Ukraine, and the possibility of another COVID variant. Van Hollen asked if it makes sense to quickly address the economic fallout if another variant occurred. Powell said this sounds like a fiscal proposal but makes sense. Van Hollen said that the more prepared we are, the better off we will be from an economic standpoint. Powell replied yes. Van Hollen talked about this referring to the President asking for more COVID relief money in the budget. He asked Powell to talk about households being in strong economic shape. Powell replied that the level of savings, even among those at the lower income spectrum, is high and people feel good about their financial standpoint now compared to past years. Van Hollen stated that after-tax personal income has improved. Powell replied yes, in nominal terms. Van Hollen was referring to the help the Child Tax Credit provided in real time.

Sen. Kennedy (R-LA) asked if the country has the money Biden wants for more COVID relief. Powell said that a lot of this money would come from the basis of borrowing. Kennedy moved to the sanctions imposed on Russia and its foreign reserves. He asked if China could become involved and support the Ruble. Powell replied that this has not happened yet, but China could do this in theory. Kennedy said that the West has said that we are going to throw Russia out of the international marketplace, which we all agree with, but said that the President has not sanctioned Russia's energy. He asked how we are going to throw Russia out without sanctioning energy. Powell replied that he could not have an opinion on this due to his position. Kennedy went back to spring of 2020 when the economy was looking at the Fed to calm it down which it did. He continued that the Fed said it would provide capital to American businesses and it did, but suppose the Fed said it would supply capital and use the opportunity to bankrupt the oil and gas sector. Kennedy asked where we would be if that happened and said that Raskin had talked about doing that. Powell thought that if that happened, Kennedy would not be very happy with him. Kennedy struck the Raskin comment because he felt that it was making Powell nervous. Powell stated that the Fed does not pick and choose and that the Fed does not allocate credit.

Sen. Ossoff (D-GA) asked Powell to explain what steps the Fed is taking in response to increased prices for consumer goods. Powell replied that the Fed is embarking on a series of rate increases during the year and beyond as well as shrinking the balance sheet which will raise interest rates across the economy to make demand more aligned with supply. He added that this will move inflation closer to the 2% goal. Ossoff saw the impact of geopolitical events on markets right now and requested that the Fed provide a Members Only briefing on how the Federal Intelligence Coordination Office performs to ensure that the Fed is up to date on intelligence and a briefing on the resilience of the Fed internal operations in the case of a cyber-attack. Powell replied yes, especially a briefing regarding cybersecurity. Ossoff asked about how the Fed considers the labor participation rate with respect to the Fed's mandate of maximum employment. Powell replied that labor supply has not increased at the expected pace so the Fed makes a forecast on modest additional improvement in labor force participation, and they factor that into how tight the labor market will be and predictions are made from there. Ossoff asked if Powell would provide Fed or third-party research with respect to the distributional effects of monetary policy over the last 15 years. Powell said he was delighted to provide that.

Sen. Hagerty (R-TN) talked about energy and said that Biden has made true on his campaign promise to do away with the oil and gas industry which has cost American jobs. He said that this has made it difficult for the administration to hit Putin where it will hurt because sanctioning Russian energy will raise global energy prices. Hagerty stated that energy touches so many aspects of our economy and wanted Powell's insight on the trend of energy prices and how it will impact monetary policy. Powell replied that in the near term, energy prices have gone up which has affected inflation and repeated that this all comes down to persistence. He said that he is much more concerned about potential persistence. Hagerty turned to Fed accountability and thought that the Fed is in a difficult position right now given fiscal spending and referred to the omission of monetary policy rules in the February report. He asked Powell how he thinks about accountability. Powell explained that the rules will be included in the July report and are sometimes left out. He said that accountability starts with transparency and Congress holding the Fed accountable through hearings like this. Powell added that the Fed is in charge of price stability, which is not happening right now, but the Fed is working as hard to control price stability.

Sen. Cortez Masto (D-NV) asked Powell if he believes the Fed should have engaged monetary tools to address price stability earlier based on what he knows now. Powell thought that supply side issues would have been fixed right now but they have not and said that if the Fed knew this, it probably would have engaged their tools earlier. Cortez Masto asked if our economy has weathered the pandemic better than other nations. Powell said yes. Cortez Masto asked Powell to speak to the Fed's report on wage increases in the tourism and hospitality industry. Powell replied that wages have increased in these sectors and that this industry is very much an in-person job which is partly why wages have gone up. Cortez Masto referred to the monetary policy report and how it did not discuss the importance of women in the workforce and asked if the Fed analyzed women participation in the workforce. Powell replied that the Fed very much analyzes this. Cortez Masto asked if lack of childcare has been a barrier to women reentering the workforce. Powell replied yes but said that caregiving more broadly is the issue. Cortez Masto turned to housing and how we can reduce costs for affordable housing and what we can do to increase the housing supply. She asked if increasing the supply of housing would impact the inflation we are seeing, in terms of supply and demand. Powell replied that if you get more supply, prices will go down.

Sen. Tillis (R-NC) asked if universal childcare was a good solution referring to Smith and Cortez Masto's questions on investing in childcare. Powell was reluctant to comment on any fiscal policy. Tillis turned to legislation he co-sponsored with Tester on the LIBOR transition and asked Powell to talk about the importance of getting this passed. Powell replied that it is very important to plug the hole of existing contracts and saw the legislation as important. Tillis asked Powell how well small businesses are doing right now. Powell replied that startups are really high right now and how in the start of the pandemic, he worried about losing a lot of small businesses, but his fears did not come true. Tillis asked if it is Powell's sense that most small businesses are flushed with cash and margins. Powell replied that it depends on the sector saying that fertilizer prices are hurting the agriculture sector right now.

Sen. Warnock (D-GA) stated Georgians are feeling the pinch of inflation and while supply chains contribute to the problem of inflation, they are not the sole problem. He pointed to market concentration and the lack of competition in shipping, diapers, and meat and how companies use inflation as an excuse to raise prices. Warnock pushed for an investigation on price gouging from international cargo carriers. He asked if more market competition is generally good for the economy and consumers. Powell replied yes. Warnock asked if too much concentration poses a risk to prices. Powell was reluctant to answer fully and said that this is for competition authorities and antitrust people. He added that the inflation aspect is the Fed's responsibility but that the Fed does not have tools to deal with market concentration. Warnock asked Powell to commit to sharing a study on how market concentration has impacted goods during the pandemic with Congress and antitrust enforcers. Powell replied that he can do better than that and that he has research on this internally and externally and said he would share this.

Sen. Rounds (R-SD) asked if the Fed has the most capability on the demand side. Powell said yes. Rounds asked how much inflation the Fed can actually impact with its tools. Powell did not have a precise answer and said that to get back to 2% inflation, the supply side will need to ease. Rounds was concerned that raising the interest rates too much could overdo it. Powell used cars as an example and explained that the Fed can lower car demand through interest rates, but we ultimately need an increase of semiconductors to really bring inflation back down to 2%. Rounds referred to the debt and deficit part of the monetary policy report and asked about the effect of a ballooning national debt on the economy as interest on the debt is slated to rise with increased rates. Powell explained that the unsustainable fiscal path will be addressed when the economy is strong, and he could not say more on that. Rounds discussed Fed master accounts and thought the timing of this recent Fed announcement was interesting due to Fed nominations. He asked for the reason the announcement was given right now and if the announcement is because the Fed thinks this has been abused in the past or if it is arbitrary. Powell replied that given all of the digital finance and new kinds of charters, the investigation is highly relevant and said that the proposal is out for comment right now. He said this has long been in development.

Sen. Reed (D-RI) focused on housing and private equity and how Wall Street is buying up as many houses and rental properties as they can. He believed this is a supply side issue and said we will see continued inflation in housing if it is unaddressed. Powell replied that in housing it is land, labor, lots, materials, and there is very strong demand which is why we are seeing prices go up. Reed stated that we have a problem that affects families everywhere and one of the consequences of raising interest rates is rising prices and we have to deal with the supply side. He hoped that something would be done on the fiscal side to address this. Reed turned to Russian sanctions, and he thought that China is paying attention to this seeing how the West unified to shut down the Russian economy. However, he worried about the Chinese creating their own SWIFT system, cryptocurrency being exploited, and the whole issue of the dollar being the medium of exchange in the world allowing the sanctions to be effective. Reed presumed Powell would be looking at this issue closely and inform Congress and then asked Powell what he thinks might happen. Powell replied yes to all of the above and said that in the long-term, the reserve currency and Chinese messaging system are questions on the table. Reed said that the Chinese will likely move to insulate themselves from what Russia's experiencing right now.

Sen. Sinema (D-AZ) supported the strong actions the administration has taken to sanction Russia and believed that we could go farther and do more while keeping in mind the impact the sanctions have on Americans as well as people around the world. Sinema said that in a global economy, sanctions often involve economic tradeoffs and asked how the Fed is assessing the impact of Russia's illegal war and sanctions on the prices of oil and gas for consumers. Powell replied that oil and gas prices have been going up for months in preparation for this and prices have gone up since the invasion. He continued that inflation here will move up and he expected lower economic activity due to higher prices. Powell again highlighted the issue of persistence which the Fed will be watching and simulating. He emphasized moving carefully with policy. Sinema asked how the rising prices of oil and gas impact the cost of other goods that rely on oil and gas and how this will show up in the CPI. Powell replied that rising gas prices will show up in the CPI and show up in the headline index. Sinema asked if the war in Ukraine impacts the Fed's thinking about interest rates. Powell replied that it is too early to tell but that the Fed plans to raise interest rates without adding to uncertainty. Sinema asked about the impact of American companies' dealings in Russia and if the Fed is monitoring this. Powell replied that American companies do not have significant exposure to Russia and while the banks have some meaningful exposure, they are not large. Powell added that there can still be second-order effects and unintended consequences and the Fed is monitoring this.