CARES Act Oversight of the Treasury and Federal Reserve: Supporting an Equitable Pandemic Recovery

Senate Committee on Banking, Housing, and Urban Affairs

September 28, 2021

**Opening Statements**

**Chairman Brown (D-OH)** reflected on the painful years following 2008 in the midst of the financial crisis and stated that Washington came to the rescue. He said the question today is whether or not we learned from our mistakes and warned that we should not repeat a Wall Street recovery. Brown talked about the success of the CARES Act and the subsequent increase in jobs. He believed that, for the first time, workers are gaining power in the American economy. He stated that the same companies have profited from the Fed and reminded everyone that we are still recovering from the pandemic. Brown continued that now is not the time to declare victory and questioned how many times Americans will have to watch us repeat ourselves. He emphasized that the Fed cannot pull back every time workers get a little bit of power and believed that true employment means that everyone has an equal job with a livable wage. Brown touched on the debt limit and stated that America needs to pay its bills on time and called on Republicans to stop playing games. He referenced his legislation, the Ban Conflicted Trading Act, and wanted to apply it to the Fed officials as well.

**Ranking Member Toomey (R-PA)** referred to the bipartisan CARES Act which allowed the US economy to recover and believed that Democrats are trying to ram through a “reckless” spending bill. Instead of raising taxes, he thought that we should be working to return to the pre-pandemic economy and that this would be achieved through relaxing regulation and cutting taxes. Toomey was concerned with the Fed’s involvement in social and environmental issues and believed that this could hinder its independence. He was also worried about inflation and urged the Fed to normalize monetary policy. Toomey had the same concern that the Treasury is following the same path as the Fed by getting into issues outside its jurisdiction and referenced the global minimum tax.

**Witness Testimony**

[**The Honorable Janet L. Yellen**](https://www.banking.senate.gov/imo/media/doc/Yellen%20Testimony%209-28-21.pdf)**, *Secretary, Department of the Treasury,*** stated that we are in the midst of a fragile, yet rapid recovery and believed that significant challenges from the Delta variant pose barriers to recovery, but she remained optimistic. She predicted that we would return to full employment by next year and believed that the policy choices Congress has made over the last 18 months have put the US in a better position compared to other wealthy states. Yellen stated that while there is more work to do, there has been significant progress. She noted the flexibility in the funds to states, localities, and tribes, and said that the flexibility is paying off now. For the relief money that has not gone out yet, Yellen explained that the Treasury is doing everything it can to expedite its delivery. She pointed to the Emergency Rental Assistance Program as one example. Prior to the pandemic, there was essentially no national infrastructure to get money from government coffers to renters and landlords. Building that infrastructure has been a massive undertaking for states, localities, and tribes. She stated that the program is scaling up quickly, with 1.4 million payments made to help struggling renters keep a roof over their heads. Still, too much of the money remains bottlenecked at the state and local levels. That’s why the Treasury team has worked to eliminate every piece of red tape possible in order to ensure more payments can get to renters and landlords, but states and localities must also work to remove barriers that can speed up the distribution of rental assistance funds. Lastly, Yellen emphasized that Congress must address the debt limit and stated that if the country defaulted, it would be the first time in American history.

[**The Honorable Jerome H. Powell,**](https://www.federalreserve.gov/newsevents/testimony/powell20210928a.htm) ***Chairman, Board of Governors of the Federal Reserve System,*** remarked that the economy has continued to strengthen since the last time he was before the Committee and reported statistics on job growth, spending, and supply constraints. He stated that job demand is very strong and that job growth is still slow in industries most sensitive to the pandemic. Powell acknowledged that the pandemic has not fallen equally on everyone and reported that inflation is higher at the moment and that while it has lasted longer than expected, it will go down. He stated that if inflation was sustained at a higher level, the Fed would step in and act appropriately. Powell believed that continued progress on vaccinations would continue to help the economy recover and talked about the Fed facilities that helped aid businesses. He emphasized that the emergency lending facilities acted as a backstop to credit and were only to be used in an emergency, adding that many of the facilities have been shut down. Powell referenced his comments last week and clarified that we are a long way away from meeting the test of full employment.

**Member Questions**

**Chairman Brown (D-OH)** asked what the impact on the economy would be if Republicans blocked all actions on raising the debt ceiling. Yellen answered that this would be catastrophic and disastrous for the economy and global financial markets along with families and workers whose lives would be impacted by not receiving money on time. Brown turned to Powell on the most recent jobs report referencing the black employment gap and asked why the Fed is going to take away economic support when workers are just now seeing a glimmer of hope. Powell stated that the Fed would continue to add accommodation, not subtract it, well into next year and that the Fed wants to see a labor market that is strong and see reductions in disparities. Brown moved onto the Child Tax Credit and asked Yellen if the expanded Child Tax Credit increases labor force participation and boosts local economies. Yellen believed that was correct and that it helps parents take care of children and that the money is being used to feed children and provide them basic needs. Lastly, Brown turned to the lack of diversity at the Fed and thanked Powell for making this a priority and stated that no black woman has ever served on the Board of Governors and asked Powell if he thought the board would be more successful if a black woman was on the board. Powell stated that he has no role in the selection process but would encourage that. Yellen agreed that having a black woman would be a welcomed achievement.

**Ranking Member Toomey (R-PA)** stated that the Democrats are on a spending binge and reminded everyone that the Democrats have the ability to raise the debt ceiling on their own. He turned to Powell and said that it seems that we are seeing more troubling inflation now than earlier this year. Toomey asked if the inflation we are seeing now seems more broad than we saw earlier this year. Powell answered that the supply side restrictions have gotten worse and believed this was a mismatch between supply and demand and that this will need to be fixed for inflation to come down. He said that inflation is still in very specific areas. Toomey highlighted that the Fed’s predictions of inflation had been off and then shifted to CBDC and was interested in a properly designed CBDC and how it would benefit the US. He emphasized getting the design done right and wanted American’s privacy to be protected. Toomey opposed the Fed acting like a retail bank in this sense and that the decision of whether or not to go down this road is transformational. He added that he thought that the decisions on CBDC should have congressional input and asked Powell about congressional authorization in this area. Powell replied that this is such a fundamental issue and it would be ideal for there to be congressional input and legislation. Toomey then asked if Yellen acknowledged that Pillar One requires a treaty and, therefore, Senate ratification to implement it. Yellen said there are a number of ways that Congress could implement it, but agreed that ratification of a treaty would be one way for Congress to authorize the taxing rights in Pillar One. Toomey stressed that for many decades we have had bilateral tax treaties and changing them requires ratification in the Senate.

**Sen. Tester (D-MT)** was concerned that some of the funds are not getting out to Montana that are allocated from the Treasury and he has heard some Montana officials blame the Treasury for this. He asked if there is anything the Treasury is doing to prevent states from getting the aid. Yellen replied that there is no restriction that Montana faces in using the funds allocated or making plans to use the funds in two tranches and that there is no need to wait. Tester asked if Montana needs Yellen’s approval on what the funds are used for. Yellen said this was correct and that the state can plan what they use the money for completely. Tester asked about a timeline for the second tranche of money. Yellen believed there was a year lag between the payments. Tester asked Yellen to talk about the impact of these funds. Yellen replied that some of the funds are being used to help in pandemic recovery and some of the money is being used to address longer term needs like broadband and water. Tester wanted Yellen to respond to something Toomey said on the debt limit and compared the US not paying the debt limit to someone who bought a steak and refused to pay. Yellen said that was correct and that this is about making good on past payments and paying the US credit card bill.

**Sen. Shelby (R-AL)** asked if the Phillips curve is still a valuable financial tool. Powell replied that there is still a relationship with the Phillips curve but it is modest. Shelby asked if he watched the Phillips curve. Powell replied yes, but that it is not top of mind and the inflation we are experiencing is unrelated to the Phillips curve. Shelby turned to Yellen on the stepped up basis, which is a tax provision, and stated that the American Families Plan would eliminate the stepped up basis and believed this could raise taxes on family businesses, especially on farms and ranches. He asked if Yellen supported the elimination of the stepped up basis. Yellen replied that she did support this and explained that individuals hold onto these assets over a lifetime and that this income is never taxed. She added that the Biden Administration has stated that at death, those gains should be taxed and with careful consideration not to harm family farms or family businesses, there are exemptions to protect them, and even if there is no taxation imposed at death, getting rid of stepped up basis, the heir would inherit the original basis. She saw step up as a loophole for the very wealthy to go untaxed.

**Sen. Warner (D-VA)** asked Yellen whether, if the US defaulted, would it not be expected that it would cause a lack of faith in the US’s ability to pay its debt and could cause interest rates to rise. Yellen responded that if Congress were to fail to raise the debt limit or even if it was feared that we are getting close to not raising the debt limit, you could expect an interest rate spike and there would be a financial crisis if the debt ceiling was not raised. She added that the US dollar and Treasury assets would be undermined as the reserve currency. Warner stated that this cannot be reversed once it happens. Yellen stated that this would be a manufactured crisis and a self-inflicted wound of enormous proportions especially in the midst of recovery. Warner asked if this would give more power and credibility to China if this happened. Yellen replied that it would undermine confidence in the US government and the safety of the US dollar and thought that China has a long way to go in reforming its financial markets. She could not think of anything more harmful to the dollar than not raising the debt ceiling.

**Sen. Kennedy (R-LA)** asked Yellen last time she was in Committee about what she thought the inflation rate would be at the end of the year and she said 2%. He asked if she still thought that. Yellen replied that the percentage would probably be higher and that it would be closer to 4% at the end of this year and her estimation included the types of supply bottlenecks that the economy is experiencing. Kennedy asked what party controls the House, Senate, and White House. Yellen responded that the Democrats do. Kennedy stated that Schumer can raise the debt ceiling by just amending the budget resolution and questioned why he cannot just do that and why Democrats want to do it the hard way. Yellen emphasized that raising the debt ceiling is about paying past bills and that Democrats have provided support in the past when Republicans were in power. Kennedy questioned why this could not be a simple solution. Yellen deferred to Senate and House leadership on what they think is best for the debt ceiling. Kennedy stated that it is not often that there are simple solutions but that raising the debt ceiling is one of them. Yellen believed that paying the bills for the deficits is a shared responsibility by both Republicans and Democrats. Kennedy believed Democrats just wanted Republican fingerprints on raising the debt ceiling.

**Sen. Menendez (D-NJ)** said that Republican fingerprints were all over tax cuts to the wealthy, all over unpaid budget spending, and all over the politics of this now, and when Democrats were in the minority, they did the fiscally responsible thing. He stated that Republicans created most of the debt we are paying back now and turned to diversity at the Treasury and Fed. Menendez stated that the most recent Fed report indicates that the Hispanic employment level at the Fed has stayed steady over the past 5 years and he asked Powell what is being done about it. He saw the same issue at the Treasury. Powell agreed that when you look at successful organizations, you will almost always see diversity at the top and emphasized making diversity a high priority. Yellen replied that it is a high priority at the Treasury and that it is focused on recruiting and hiring Latinos. She continued that over the past weeks, the Treasury has offered multiple jobs to Latinos and Latinas that are expected to be announced soon. Yellen added that the Treasury tracks very carefully the diversity of its workforce. Menendez stated that he looks forward to voting on Hispanic nominations but that he has not seen any. He lastly asked Powell about expanding access to childcare and asked if this would increase the labor participation rate for women. Powell believed that there is research to support that.

**Sen. Lummis (R-WY)** stated that it is irresponsible to be in this amount of debt and for both parties to sit here and blame each other. She stated that Congress is so busy making the other party look bad instead of addressing the real issue and said she was horrified. Lummis turned to Yellen on reporting consumer data to the IRS for payments over $600. She said this is a privacy issue and it puts a burden on banks and credit unions just to collect data for the government. She said banks do not work for the IRS and this would be invasive of privacy. Lummis stated that Wyoming residents will turn to alternative banking because they do not want to share this data and asked if Yellen is aware of how burdensome this regulation is. She thought privacy for individuals was being ignored and questioned why the government needs to know when Americans buy a couch or a cow. Yellen replied that banks already report directly to the IRS and the interest they pay on accounts over $10 and that this is not a proposal to report transaction data, but to add two additional pieces of easily ascertained information to the 1099 INT form that banks already report. She emphasized that tax gaps not being paid to the government deprive the country of funds it needs and thought Lummis misunderstood the proposal. Lummis stated that the $600 threshold is not where we are going to find massive amounts people cheating the government out of money.

**Sen. Warren (D-MA)** stated that Powell has weakened regulatory oversight of the country’s biggest banks during his tenure and pointed to stress tests and asked if he regretted weakening the stress test. Powell was not sure what she was referring to and did not think the Fed weakened stress tests. Warren referred to the removal of the Volcker Rule in 2020 and pointed to the Archegos incident and given this, she asked if Powell regretted weakening the Volcker Rule. Powell replied that Archegos is a family office and was not sure if there were any Volcker Rule implications with Archegos and said that the Fed has looked into the Archegos incident. Lastly, Warren stated that the Fed weakened liquidity requirements and asked if Powell regretted this. Powell answered that what she referred to was tailoring and that he did not see any evidence that it was a bad idea, but he would look at it again. Warren said that the elephant in the room is about Powell’s renomination and that renominating him means deregulation. Warren stated that Powell has been lucky that his deregulation has not caused too much harm, but that his record is concerning to her because Powell’s actions make the banking system less safe. She told him that she opposed his renomination.

**Sen. Rounds (R-SD)** disagreed with Warren and stated that he would support Powell’s renomination. He asked him about the SLR exclusion at the Fed and asked if Powell thought this was successful and if there was any possibility of continuation. Powell replied that he did not want leveraged ratios to be the binding constraint on banks because it gives them the incentive to take more risk. He thought that the Fed needed to be very careful with the SLR and that any changes to it should not change the capital requirements at larger institutions, however they are looking to modify SLR and are reviewing feedback right now. Rounds stated that the Fed has received positive feedback from the modification of the SLR rule. Powell said yes, but defended that it was during an emergency situation that has since lapsed. Rounds turned to Yellen on the backlog tax returns facing the IRS and about the plan to address the backlog. He sent a letter to her asking about this and did not receive a response. Yellen replied that she has discussed this with the IRS Commissioner and apologized for not responding to Rounds and would do so with details. She stated that the IRS Commissioner does have a plan and is trying to get more resources to the IRS to address this rapidly. Rounds moved to the debt limit and questioned when enough is enough with the deficit and debt. Yellen replied that there are numerous metrics used to evaluate what is too much debt and defended that the US has been in a very low interest rate period for a long time and predicted that in the future as well. She thought that the real net interest cost is a better metric for debt which has been negative for years.

**Sen. Smith (D-MN)** focused on Emergency Rental Assistance (ERA) and stated that the pandemic has not treated everyone fairly, especially in the realm of housing. She continued that so far only 15,000 out of 60,000 families have been helped through Minnesota’s ERAP and asked Yellen what she can tell her about what she is doing to ensure that renters are not hurt as the Treasury approaches this recapturing of ERA funds. Yellen replied that she wanted to make sure renters are helped and that the Treasury is working hard to provide the support to state and local governments to put in place effective programs. She explained that the ERA 1 statute requires the Treasury to begin reallocating excess funds, this will be required as of September 30, and that the Treasury is developing a procedure to govern that reallocation process. Yellen wanted to make sure that localities with demonstrated need get additional funds and that they come from places that are not running effective programs or have less need. She said that the Treasury will look at reallocation to improve the effectiveness of the program. Smith asked if the Treasury could approach the backlog of applications in the systems as the Treasury is working on this. Yellen replied that the Treasury will look at them and the effectiveness with which states and localities have gotten out the rental assistance that they have. She wanted to see, before additional funds are made available, that the ones that are available have been allocated effectively, but if they are and there is clearly additional need, then those places would be eligible to receive additional funds. Smith wanted to ensure that the folks who really need the help are not penalized due to the slowness of the programs being stood up. She touched on childcare and was grateful for the work the Treasury has done on this. Smith addressed the high turnover in the childcare sector and stated that wages are not being raised here compared to other industries and asked Yellen to explain this. Yellen replied that parents are struggling with very high prices for childcare and are unable to afford it, which puts childcare providers in a spot where they cannot pay their workers a livable wage.

**Sen. Scott (R-SC)** noted that our labor force participation is down, not up, so even with the payments that are supposed to raise that rate, it is not happening. He focused on senior citizens who rely on social security and said that inflation is really hurting those who rely on fixed income. He asked Powell to point to any policy in the Administration that has affected the prices of gas and food. Powell could not answer. Scott questioned if a $1.9 trillion relief plan only adds pressure to the market resulting in inflation. Powell could not respond on specific legislative policies. Scott asked Yellen how to justify supporting the $3.5 trillion package when there is low labor force participation and high inflation. Yellen replied that the package pays for itself and thought that the Build Back Better package will improve corporate competitiveness.

**Sen. Van Hollen (D-MD)** agreed that the Build Back Better package will pay for itself and stated that the 2017 tax cuts were worse for the economy. He asked Yellen about ERA and shared her concern that the money has not gotten out quickly enough and hoped she would clarify that, with the appropriate safeguards, that landlords can submit applications on behalf of tenants. Van Hollen asked her to give assurances, as we reallocate some of these funds, that we are not going to harm the people we intend to help simply because their local government could not get the funds out as quickly as others. Yellen replied that she would try to avoid that and that the Treasury is aware of that possibility and will try to re-allocate within states so that individuals who are not being helped locally will have access. Van Hollen continued that in Baltimore’s case the Treasury has said the funds can be used to bring out tourism, but cannot be used to bring back families that may have left the city during the pandemic even though bringing them back would be a long term investment and he planned to follow up with Yellen. Van Hollen asked Powell if he agreed with Yellen’s assessment of what would happen if we did not raise the debt ceiling and defaulted on our payments. Powell agreed and thought it was essential to raise the debt ceiling in order to avoid defaults and that defaults of any kind can be very severe. Van Hollen stated that part of the debt was incurred during the Trump Administration and believed that Republicans were in favor of that. He stated that he wanted the Republicans to be involved in raising the debt ceiling.

**Sen. Daines (R-MT)** expressed his continued concern around the inflation and was concerned that the supply chain issues will not be quickly resolved on top of the $3.5 trillion package. He added that the package would kill jobs and hurt economic growth. Daines referred to the bipartisan letter he sent to the Treasury on water infrastructure and asked if Yellen would commit to working with him on this. Yellen replied yes. Daines turned to energy and asked for Yellen’s thoughts on what is happening with the UK on renewable energy and how they are not able to meet the demand for energy and energy prices are increasing. He stated that we are lucky in the US to have diverse energy sources, but he was concerned about the Biden Administration’s attempt to curtail use of certain energy sources. Daines asked Yellen to explain how the tax hikes and shuttering of fossil fuels would not lead us down the same path as Europe. Yellen stated that the Biden Administration and herself worry about the threat of climate change and that the President has proposed a clean electricity plan that by 2035 would shift the electricity center to renewables. She addressed the question of what to do when the sun is not out or the wind does not blow and said that there are storage technologies that can be deployed along with other means to address this and they would need to be part of the plan. Daines was concerned about the technical challenges of this, the impact it would have on low-income families, and increased energy prices. Yellen stated that the Administration wanted to avoid this and would not want to raise prices on low-income families. She believed that the plan would not increase prices. Daines turned to Powell about his review of ethics and transparency rules across the Fed in response to the violation from the Dallas and Boston Fed presidents. He stated that the Fed is subject to FOIA and the Federal Records Act, but that the Fed regional banks are not. Daines asked if Powell would support subjecting Fed regional banks to FOIA and Federal Records Act to ensure greater public transparency and trust in the Fed. Powell replied that he wanted the chance to think about it and would get back to him.

**Sen. Ossoff (D-GA)** asked Powell what he assessed as the biggest systematic risks or threats to financial stability to the US and globally beyond the pandemic. Powell replied that he thought of cyber risks over anything else and that the US has a highly capitalized banking system and the risk that we have not really faced a full frontal attack on is a cyber attack on our financial institutions. Ossoff asked Yellen the same thing. Yellen responded that there are threats from the shadow banking sector and that we saw some of that emerge during the onset of the pandemic. She said that the FSOC is looking at this topic and that there are issues related to hedge funds and the possibility of leverage there that can trigger financial runs. She added that climate change over time could be a significant risk to the financial sector and the economy and it is something FSOC is looking at as well. Ossoff asked Powell his assessment of the shipping markets and input operations and how it is contributing to the supply bottleneck. Powell replied that that is a significant factor and that transportation is a big issue. He stated that all our supply chains have gotten tangled up. Ossoff referenced the Port of Savannah and that there is additional capacity there. He asked if either of them has been in any meetings to surge governmental resources and ingenuity to solve these shipping bottlenecks and wondered if a more targeted approach could help resolve these issues at our national ports and in the shipping industry. Yellen replied that the NEC is looking at this and has hired someone who is an expert in logistics and the supply side to see what we can do to untangle these supply chains.

**Sen. Tillis (R-NC)** referenced the Administrative Procedures Act (APA) and how it requires the Fed to follow well established rules when issuing proposed and final regulations and believed that the Fed issues too much guidance that's generally applicable to all banks which should instead be subject to thoughtful and transparent notice and comment. He believed that former board member Dan Tarullo has suggested that certain federal actions are exempt from the APA and that Vice Chair Quarles has made it clear that the Fed has to abide by the APA by all circumstances. Tillis asked who was right between Tarullo and Quarles on whether the Fed is subject to the APA. Powell, with counsel present, understood that the APA does apply to the Board and that the Fed does take care to observe its requirements. Tillis referenced an October 2013 FOMC meeting where Powell advocated for not disclosing contingency plans he had made for a potential breach of the debt ceiling saying that it would “make it less likely that the Congress will feel enough pressure to raise the debt ceiling.” Tillis asked Powell if he thought it was the role of the Fed to reserve information and in what other instances Powell has deemed information not important enough to not influence congressional outcomes. Powell stated that if Tillis looked at the transcript, Powell said and meant that the things that the Fed will do, that are within its power to do, are very well understood by market participants and that there was a long list of things discussed that the Fed would not want to do, but in an national emergency would have to do. Tillis moved to Powell and Yellen supporting legislation to address outstanding contracts tied to LIBOR. Tillis agreed with this completely and was happy to see legislation pass out of the House Financial Services Committee on a bipartisan basis. Tillis said that he understood this same legislative action is needed in the Senate to ensure a smooth transition and to provide certainty to capital markets and looked forward to working with his colleagues, namely Tester, to make sure Congress acts on this.

**Sen. Cortez Masto (D-NV)** stated at the end of the day, it is about truth and working together. She continued that Congress passed all these relief bills as a result of the pandemic and asked if those pieces of legislation were important to avoid a financial crisis. Yellen and Powell both agreed that the relief was essential. Cortez Masto said that a lot of the debt came from the relief allocated during the pandemic and wanted to make sure that was correct. Yellen replied yes. Cortez Masto continued that in Nevada the hospitality industry is still trying to recover from the pandemic and asked Powell what more can be done for that industry. Powell replied that the most important thing is to get control of the pandemic because that is what is keeping people off airplanes and out of restaurants, so it is about getting the Delta variant under control and getting people vaccinated. Yellen agreed. Cortez Masto also touched on the supply chain and asked about the timeframe of when the National Economic Council will come back with concrete answers on how to address the supply chain. Yellen replied that she would work on getting this information from the NEC and that the NEC is bringing together business leaders who are in affected industries with experts to see if things can be worked out.

**Sen. Hagerty (R-TN)** focused on the $3.5 trillion package and asked Yellen about the framework designed to pay for the package. Yellen replied that it is essentially a list from the branches of Congress on how revenue can be raised including increases in the corporate tax rate and improvements to tax compliance. Hagerty wanted to see the framework ahead of voting on the package and asked if it is an option to receive the details. Yellen replied no, negotiation on the package is still ongoing. Hagerty found this disturbing. Yellen replied that he could look at the Treasury Green Book or the House Ways and Means markup of the bill. Hagerty found that the credibility of the Biden Administration is very challenged. He turned to the new requirement that the banking system report transactions over $600 and that it would be an extensive compliance burden. Hagerty worried about this information being protected and asked how Yellen would ensure its protection. Yellen replied that protecting tax information is the highest priority of the IRS and that they are proposing investments in the IRS so it can further modernize. She added that this would be a small amount of information and stated that banks already report to the IRS on 1099R. Hagerty appreciated that Yellen is prioritizing accountability at the IRS.

**Sen. Warnock (D-GA)** referred to yesterday’s news that the regional Fed presidents in Dallas and Boston are resigning following earlier reports that they were actively trading their private investments while the bank was intervening in the markets. He continued that, throughout the pandemic, many experts have underscored maintaining the independence of the central bank and, even though neither serves as voting members of the Federal Open Market Committee, he believed this was a blow to the image of the central bank serving as an impartial and independent agency charged with maintaining stability. Warnock asked what immediate actions Powell has taken to ensure the impartiality of the Fed, what systems in place failed in this situation, and what he plans to do going forward. Powell replied that the need to sustain public trust is essential and that he did not like having these concerns raised. He called for a review of the Fed’s practices around investments, trading, and disclosure that worked for a long time but clearly need to be reformed now. Powell said he was also looking at the trading to ensure that it was compliant with rules and the law. He called the appearance unacceptable and that the problem is that the rules and disclosure need to be fixed and he assured that they would be. Warnock changed topics to working- and middle-class families and the inclusion of the Child Tax Credit in the American Rescue Plan. He believed that the Child Tax Credit is simply a tax cut that would reduce childhood poverty significantly and, if made permanent, it would push poverty down to 10% in 47 states. He asked Yellen if it should be made permanent. Yellen replied that she wanted to find a way to make it permanent and stated that it is clear that families are spending this money on food and clothing. Warnock asked what the impact of that is on the economy. Yellen replied that it is positive as it supports economic spending and increases labor participation. She added that over 90% of families receiving the CTC are working.

**Sen. Cramer (R-ND)** stated that we keep giving away money like it grows on trees and opposed the idea that the current inflation is only transitory. He moved to climate change saying that Yellen has made it a priority at the Treasury and how she and John Kerry, the Climate Czar, have encouraged banks and investment institutions to form a net zero banking alliance and he believed this would just transfer climate guilt. Cramer continued that this would urge banks to provide as much support for alternative energy projects as possible at the expense of existing energy projects and this encourages financial institutions to put political and social agendas ahead of their investors, banks, and the economy. He said this was why he was opposed to arbitrary ESG requirements. In light of weak unemployment numbers, he asked if it is a good idea for private businesses to be forced to invest their money somewhere by the government, potentially harming jobs. Cramer stated that the CTC is a subsidy, not a tax cut. Yellen replied that climate change is a very high priority for President Biden and herself and defended that no one is forcing businesses into investing where they do not think is profitable. She wanted to ensure that investors have the information that enables them to make investment decisions that are profitable. Cramer questioned if this is because she does not think investors can determine this information on their own.

**Toomey** felt compelled to touch on the debt ceiling and was shocked to hear Yellen and some of his colleagues tell him that raising the debt ceiling and the additional borrowing that the spending permits is 100 percent about covering spending that was committed to in the past. He said that spending that has not occurred yet will in fact increase the amount we will need to borrow and that the $3.5 trillion package will have an impact on borrowing. Toomey said that the truth is that the Democrats do not want to associate the spending binge with the debt that will be required to pay for it and stated that Republicans are not in favor of either one which is why he thought the procedures available will need to be used to raise the debt ceiling.

**Brown** responded that Democrats joined with Republicans three years ago to vote to raise the debt ceiling and repay the country’s debt and urged for this to happen again. He stated that the infrastructure investments passed are already paid for and that corporate greed is a big reason why this investment is needed in the first place. Brown continued that the economy looked good from the corporate boardroom, but not from neighborhoods and stated that that is changing. He believed workers will gain a lot more power through investments made in the Build Back Better plan.

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

House Financial Services Committee

September 30, 2021

**Opening Statements**

**Chairwoman Waters (D-CA)** remarked that the Biden Administration and Democrats continue to work to get relief for small businesses and families across the country. She discussed the passage of the American Rescue Plan and the work on Build Back Better. Waters said that Democrats were also undoing failures of the Trump Administration and referred to her legislation that would speed up the Emergency Rental Assistance (ERA) funds. She stated that Republicans continue to operate recklessly and referred to Republicans blocking legislation to raise the debt ceiling.

**Ranking Member McHenry (R-NC)** stated that this hearing should have taken place in the second quarter, not the third, but saw this as proof of incompetence of the Democrats and the Biden Administration. He continued that Yellen and Powell instill confidence in the US financial system and that the faith in the Fed and the Treasury rests on both of them. McHenry believed that the country would be better off with Powell continuing to lead the Fed and was glad that Yellen was in her position. He then apologized for the position the Biden Administration has put them in. McHenry stated that the Biden Administration and the Treasury cannot keep track of the ERA funds but want to spend more money. He said that asking Republicans so late in the game to support their agenda is absurd.

**Rep. Green (D-TX)** urged the raising of the debt ceiling and emphasized that it is about paying the country’s past debts.

**Witness Testimony**

[**The Honorable Janet L. Yellen**](https://financialservices.house.gov/uploadedfiles/hhrg-117-ba00-wstate-yellenj-20210930.pdf)**, *Secretary, Department of the Treasury,*** stated that we are in the midst of a fragile, yet rapid recovery and believed that significant challenges from the Delta variant pose barriers to recovery, but she remained optimistic. She predicted that we would return to full employment by next year and believed that the policy choices Congress has made over the last 18 months have put the US in a better position compared to other wealthy states. Yellen stated that while there is more work to do, there has been significant progress. She noted the flexibility in the funds to states, localities, and tribes, and said that the flexibility is paying off now. For the relief money that has not gone out yet, Yellen explained that the Treasury is doing everything it can to expedite its delivery. She pointed to the Emergency Rental Assistance Program (ERAP) as one example. Prior to the pandemic, there was essentially no national infrastructure to get money from government coffers to renters and landlords. Building that infrastructure has been a massive undertaking for states, localities, and tribes. She stated that the program is scaling up quickly, with 1.4 million payments made to help struggling renters keep a roof over their heads. Still, too much of the money remains bottlenecked at the state and local levels. That’s why the Treasury team has worked to eliminate every piece of red tape possible in order to ensure more payments can get to renters and landlords, but states and localities must also work to remove barriers that can speed up the distribution of rental assistance funds. Lastly, Yellen emphasized that Congress must address the debt limit and stated that if the country defaulted, it would be the first time in American history.

[**The Honorable Jerome H. Powell**](https://financialservices.house.gov/uploadedfiles/hhrg-117-ba00-wstate-powellj-20210930.pdf)**, *Chairman, Board of Governors of the Federal Reserve System,*** remarked that the economy has continued to strengthen since the last time he was before the Committee and reported statistics on job growth, spending, and supply constraints. He stated that job demand is very strong, and that job growth is still slow in industries most sensitive to the pandemic. Powell acknowledged that the pandemic has not fallen equally on everyone and reported that inflation is higher at the moment and that while it has lasted longer than expected, it will go down. He stated that if inflation was sustained at a higher level, the Fed would step in and act appropriately. Powell believed that continued progress on vaccinations would continue to help the economy recover and talked about the Fed facilities that helped aid businesses. He emphasized that the emergency lending facilities acted as a backstop to credit and were only to be used in an emergency, adding that many of the facilities have been shut down. Powell referenced his comments last week and clarified that we are a long way away from meeting the test of full employment.

**Member Questions**

**Chairwoman Waters (D-CA)** turned to Yellen on the ERAP and was concerned that the pace of delivery is not happening quickly enough and asked Yellen to talk about the challenges of dispersing the money and the improvements the Treasury has made to the program. Yellen replied that the Treasury has been very focused on dispersing the funds and explained that dispersing the funds has been slow due to standing up infrastructure around the country that has not existed before. She talked about the flexibility the Treasury has given to states and localities to make applying easier and that the Treasury is working to provide technical assistance to states who need help getting the money out. Yellen noted that the act requires the Treasury to reallocate funds starting September 30th and that the money will be reallocated to states and localities who have shown more need. Waters asked if there are particular provisions that will aid the Treasury in making the program more successful. Yellen replied that she has been supportive of Waters’ efforts to expedite delivery and effectiveness of the ERAP.

**Ranking Member McHenry (R-NC)** stated that fiscal policy does impact the Fed’s economic projections despite Powell not being able to comment on fiscal policy. Powell replied that the Fed does look at fiscal policy in its economic projections. McHenry referred to the Treasury running out of money in October and how Yellen started taking extraordinary measures starting in August. Yellen replied yes and that it would be a disaster if Congress failed to raise the debt ceiling. McHenry continued that the approach by the Democrats is to pass things without Republicans but now, Democrats want Republicans to help raise the debt ceiling and asked Yellen if she cares if Republicans help to raise the debt ceiling. Yellen replied that raising the debt ceiling has usually been a bipartisan decision and that the debt is from both Republican and Democrat administrations. McHenry stated that he has been a part of every decision to raise the debt ceiling for the past decade and referred to a phone call that he had with Yellen last week, saying that the phone call was the first time the administration had reached out to him. Yellen referred to 2017 when Republicans were in control, that the debt ceiling was raised on a bipartisan basis.

**Rep. Meeks (D-NY)** was shocked by McHenry’s comments on the debt ceiling and that it has never made a difference to him when voting to raise the debt ceiling. He said when it comes to the credit of the US, it is about doing the right thing for the American people, not about who is president. Meeks stated that there are consequences if Congress does not vote to increase the debt ceiling and wondered as we are recovering from the pandemic, what setbacks families would experience from such a default. Yellen thought defaulting would be catastrophic for individuals and families, saying that families and individuals who receive payments from the government would not get the money; there could be a drop in the stock market, and potentially higher interest payments. Meeks turned to Powell on inflation and asked how the Fed will manage the tradeoff of controlling prices and employment. Powell replied that inflation is low when employment is high and stated that the economy is not at full employment yet. He still believed that high inflation would abate and expected that inflation will come down to avoid any tradeoff between the two.

**Rep. Wagner (R-MO)** thanked Yellen for finally appearing before the committee and referenced the data released by the Treasury on the ERAP saying that after 9 months, the data still shows that more than 83% of the funds remain unspent while millions of tenants and landlords remain in limbo. Wagner asked if Yellen considers ERAP to be a success. Yellen replied yes. Wagner asked if Yellen was aware that funds are supposed to be spent by December 2021. Yellen replied yes. Wagner asked if Yellen was aware that Democrats extended that timeframe to 2022 and 2025 for the ERAP. Yellen replied yes. Wagner asked if extending the deadline incentivizes grantees to get funds out the door. Yellen replied that the Treasury is doing everything it can with states and localities to get the money out the door. Wagner believed there was plenty of time to have gotten the money out and called the ERAP a failure. Yellen repeated that her objective is to get the money out the door as fast as possible. Wagner turned to Powell on bottlenecks in supply chains and the rising inflation, and she asked what makes Powell believe that we will not see sustained inflation. Powell replied that inflation will remain elevated and then subside. He explained that this is a function of supply side bottlenecks and predicted inflation would go down next year. Wagner stated that this was not the time to be spending trillions of dollars.

**Rep. Velazquez (D-NY)** asked Yellen to explain the type of resistance the Treasury continues to face from state and local governments on the ERAP. Yellen replied that for states and localities who launched the program late, there were many technical challenges and procurement challenges. She continued that the Treasury has received a lot of comments on the guidance the Treasury released and added that the Treasury has partnered with HUD on sending out technical assistance to states and localities. Velazquez stated that New York has made significant progress on the ERAP, but that New York still needs more assistance. She asked about more money. Yellen replied that the reallocation of money will be critical and how the Treasury will look at localities who need the money most. Velazquez stated that under the American Rescue Plan, the states reallocated money for small business loans and asked how the Treasury is doing outreach on this. Yellen replied that the Treasury is reaching out to each state to ask what the states need for education and outreach. Velazquez asked if Powell agreed with Yellen’s comments on raising the debt ceiling. Powell agreed.

**Rep. Mooney (R-WV)** asked Yellen if she believed that Biden’s reconciliation proposal will cost $0 and be fully paid for. Yellen replied yes and that there are a host of revenue raisers and believed it would be revenue reducing during the first 10 years of the program. Mooney was skeptical of this view and believed that the federal government is spending money at an alarming rate. He moved on to tax increases, specifically the proposed corporate tax rate at 26.5% and asked why raising our corporate tax rate above China’s is a good idea. Yellen replied that the tax rate our corporations pay is very low despite our businesses being the best in the world and that the country can afford to raise the tax rate on corporations without impacting performance. She continued that this increase has been supported globally and discussed the global minimum tax rate. Mooney thought this would make the US less competitive and believed that the reconciliation bill would be too expensive.

**Rep. Beatty (D-OH)** talked about diversity and thanked Powell for his commitment to increase diversity at the Fed. She referred to the Dallas and Boston Fed presidents who just resigned and wanted to make sure in interviewing for new presidents, an African American or female would be present in the interviewing process. Beatty asked for comments. Powell replied that diversity would be a focus of the interviewing process. Beatty moved to putting Harriet Tubman on the $20 bill and asked for comment on this. Yellen believed that our notes reflect the history and diversity of the country and supported Tubman being on the $20. She explained that notes are a very long process due to collaboration and ensuring security against counterfeit. Beatty continued that the Trump Administration rushed regulation for the ERAP and how it was very confusing to the states. She asked if it was true that Secretary Mnuchin had to go back and redo the regulation to make it more workable. Yellen said that was true.

**Rep. Davidson (R-OH)** stated that there is no plan to stop bankrupting America and commented on the 13(3) facilities by the Fed saying that the facilities were used prior to and after the passage of the CARES Act. He feared that Democrats do not understand bonds and how the markets work and asked how important the 13(3) facilities are to the economy. Powell replied that the 13(3) facilities are to be used in an emergency and function as a backstop. He did not think the facilities should be permanent and explained that the Fed needs approval from the Treasury to use them. Davidson referenced a speech by Fed governor Michelle Bowman on bank supervision and asked for an opinion on the scenario that banks consolidate bank supervision. Powell replied that the banks and the Fed work well together. Davidson talked about the digital asset space and asked Yellen what a digital asset is for the purposes of tax reporting. Yellen replied that she believed the IRS would issue detailed regulations that will answer that question. Davidson stated that the law has not kept up with this and believed it would be a shame for regulation to hurt innovation in digital assets and the fintech arena.

**Rep. Lawson (D-FL)** was glad to see climate related risk being paid attention to by the Fed and asked about scenario analysis, stress testing, and other tools the Fed has to look at climate change. Powell replied that scenario analysis is one of the principal tools for managing risk of climate change and explained that it is very different from stress testing. He said scenario analysis is being developed at the Fed right now and thought that the Fed saw its role as making sure financial institutions understand the risk and providing supervisory tools. Lawson moved to the State Small Business Credit Initiative and asked when the funds would be released by the Treasury. Yellen replied that this program is very important and that the Treasury is in the process of implementing it to enable small businesses, especially ones in vulnerable and minority areas, to receive the money.

**Rep. Budd (R-NC)** stated that federal government spending is expected to reach a new record this year and asked Yellen if there is an amount of debt that is unsustainable. Yellen believed that the debt held by the public relative to GDP is around 105% which is a number higher than usual but believed that it was not a number that is fiscally irresponsible or unsustainable. She looked at the interest burden on the debt as a better measure and stated that the interest number has actually been negative due to the low interest rates pre-pandemic. Budd asked if the interest rate is zero, what would be irresponsible as a percentage or the total dollars of debt. Yellen replied that we could have a substantially higher burden if the interest rate was zero. Budd stated that inflation is eating away at families and asked Powell what he would tell families who are struggling to make ends meet. Powell replied that we are dealing with an extremely unusual event coming out of the pandemic and that he expects inflation to abate in the coming months and next year. Budd moved to CBDC and its impact on Stablecoins and cryptocurrencies and asked if it was Powell’s intention to ban or limit the use of cryptocurrencies. Powell replied no and that he had no intention to ban cryptocurrency.

**Rep. Casten (D-IL)** wanted to avoid manufactured crises, pointing to the vote on the debt ceiling. He asked Yellen if she supported eliminating the debt ceiling. Yellen replied yes and if to finance spending and tax decisions, it is necessary to add additional debt and believed it was dangerous to put the White House and the Treasury in a position where it could not pay the debt. Casten was concerned about workforce participation and asked for Powell to explain the driving factor in the deduction in workforce participation. Powell replied that the two biggest parts of the deduction are caretakers and retirees. He explained that with caretakers, part of it is children being home from school which should abate over time. Powell was unclear about the retiree aspect but thought that the workforce would get back a large number of retirees. Casten referred to the EO on climate risk disclosure and asked about any response the Treasury has for this. Yellen replied that she expected a report to be released in October or November on climate risk and describing some of the challenges faced in carrying out disclosure.

**Rep. Kustoff (R-TN)** referenced a September 15th WSJ article on the $600 reporting threshold and asked Yellen if the article was accurate. Yellen replied yes. Kustoff asked if Yellen would say that Americans should not have any privacy concerns. Yellen replied that there are not any privacy concerns and that this is a simple reporting mechanism. She added that it is two additional pieces of information, not transactional data. Yellen did not believe that this is an invasion of privacy and that the IRS gets a great deal of information to ensure there are no violations of the tax code. Kustoff referenced the ProPublica breach with the IRS. Yellen replied that the ProPublica breach is being investigated and that it will be prosecuted. Kustoff believed that the proposal would give more information to the IRS and asked if Yellen supported a move of the Secret Service to the Treasury from the Department of Homeland Security. Yellen replied that she does not have a position on that yet.

**Rep. Torres (D-NY)** was appalled by his Republican colleagues on the debt ceiling and stated that raising the debt limit is about paying past dues, not about spending more money. He supported legislation to abolish the debt limit and hypothesized that it is October 18th and asked what happens. Yellen replied that it is an impossible situation and that the Treasury would be unable to pay all of the government’s bills. She stated that the damage would be irreparable and the fact that Congress might not raise the debt limit would call into question the safety of the US dollar. Torres followed up on the debt to GDP ratio and asked Japan’s ratio. Yellen replied that it is 250% and the highest percent in the world. Torres stated that Japan is still considered a successful economy at that ratio and has low interest rates. Yellen replied that defaulting would hurt interest rates on any loan. Torres asked if a nearly bankrupt trading company should have received a national security loan by the Trump Administration. Yellen said she would get back to him on this. Torres asked how much funding would be reallocated by the September 30th date. Yellen did not have a number but that the money would be targeted to those who need it most. Torres asked what we should expect if the US defaults on our debt. Powell replied that no one should expect the Fed and the Treasury to be able to protect Americans if a default occurs.

**Rep. Hollingsworth (R-IN)** followed up on the conversation on the $600 reporting threshold and wanted a better understanding of what is being proposed. He was gravely concerned about privacy issues with the proposal. Yellen replied that the proposal would be limited to an additional two pieces of information as it is stated in reconciliation. She added that the IRS is dedicated to Americans who are low-income and referred to the tax gap. Hollingsworth repeated that he was worried about yielding privacy to a federal government that has shown to mobilize the information against people and businesses. Yellen stated that there is no transaction level data by individuals being reported to the IRS and clarified that the proposal originally requested additional information on businesses and partnerships.

**Rep. Axne (D-IA)** focused on inflation and how Powell commented that inflation is concentrated in a few industries, heavily impacted by the pandemic. She specifically looked at semiconductor shortages which affect car prices and the supply chain shortages. Axne asked about solutions and if it makes sense for the economy to pull back investments in supply bottlenecks. Powell replied that supply chains are very tangled right now and expected them to abate in the future. Axne asked if it would be smart policy to invest in our workforce to increase labor participation. Yellen agreed and talked about investing in childcare to help boost the workforce. She pointed to women’s participation declining in the workforce in past decades and that it is a result of not investing in childcare and paid family leave. Axne believed policies like childcare and paid family leave would boost the economy and the workforce.

**Rep. Rose (R-TN)** felt like there was a lot of misinformation on the debt limit and followed up with Yellen on the $600 reporting threshold and asked if there was anything in the Biden proposal to defray the cost that banks and financial institutions would incur from the added reporting expenses of providing this additional information to the IRS. Yellen did not believe that was in the administration’s proposal but would be willing to work with Congress on that defray of any expense, if appropriate. Rose shifted to Treasury guidance released in May on flexibility of funds and asked when updated guidance will be issued. Yellen replied that there is an interim final rule in place that states and localities can rely on and that the Treasury will release an updated rule this year. Rose continued on the ERAP and said he believed that Waters bill would actually slow down disbursement of the ERA. He asked if Yellen was concerned about self-attestation and if it would increase fraud. Yellen replied that money gets out in the most effective way possible while maintaining controls to prevent fraud and abuse. Rose called Yellen out on not appearing before Congress on discussing the ERAP. He yielded his remaining time to Rep. Luetkemeyer.

**Rep. Luetkemeyer (R-MO)** called Yellen out on refusing to come before the Small Business Committee and questioned why she is allowed to pick and choose what laws she can follow. Yellen replied that she has testified 11 times in front of the committee.

**Rep. Lynch (D-MA)** viewed the latest threat to default on US debt as an attack on the government and Americans. He supported abolishing the debt ceiling and asked Yellen about the rollout of the CARES Act. As chair of the Task Force on Financial Technology, Lynch talked about fintech engagement with PPP and SBA loans, reporting that 75% of fraud detected was from the 15% of money put out by fintechs. He asked about any lessons learned from the rollout and the interaction of getting money out through fintechs. Yellen replied that there are oversight processes taking place but did not have details about what was found on fintech lenders. She stated that in every aspect of developing programs assigned to the Treasury, it has worked with the Office of IG to ensure that there is fraud control to minimize fraud in the programs. Powell replied that PPP was put out by the SBA. Lynch asked Yellen to repeat what happens upon default. Yellen emphasized that default would be catastrophic and would have long lasting consequences.

**Rep. Steil (R-WI)** noted that the proposal for the $600 reporting threshold would be an invasion of privacy and was concerned about it. He moved to the debt to GDP ratio and asked if it would be irresponsible to have that percent over 100. Yellen replied that it would depend on the interest burden. Steil was concerned about the spending proposals from the Biden Administration and the debt path. Yellen defended the Biden proposals, saying they are neutral to the debt path. Steil shifted to Powell on inflation and how the Fed is not taking action yet on inflation. He believed that people were seeing the effect of higher prices and worried about the public expectations of the higher inflation rates. Steil asked Powell to state what the Fed is going to do about public expectations. Powell replied that this is not measured precisely, but is measured a lot, and that the Fed is monitoring inflation very carefully and if the inflation regime changed, the Fed would put in tools to keep inflation at the goal of 2%.

**Rep. Adams (D-NC)** followed up on Senator Brown’s question on how no black woman has served on the Fed Board of Governors. She asked Powell and Yellen what they are doing to hire black and brown women at all levels and if recruitment at HBCUs and MSIs is being considered. Yellen replied that the Treasury has an active program at all levels to recruit a diverse workforce. She added that she would provide advice to the President for the Federal Reserve on who he appoints to the Federal Reserve and ensured that there would be diverse candidates. Powell replied that the Fed works very hard to recruit diverse candidates and provide opportunities to have a long career at the Fed. Adams asked Yellen about the economic recovery and if it was strong enough to handle the pandemic relief efforts. Yellen replied that the US is outperforming most other developed countries in our recovery partly due to the efforts by Congress. She acknowledged that there will be an economic drag due to the economy, but that recovery is strong. Adams asked what the effect would be on the economy if the debt limit is not raised. Yellen repeated that it would be catastrophic and would hurt the American people.

**Rep. Timmons (R-SC)** asked about a possible idea to mint a coin worth $1 trillion dollars to pay our debt and asked for comment on this. Yellen urged raising the debt ceiling to pay our debt to avoid default. He moved to the $600 reporting threshold and its inclusion in reconciliation. Yellen replied that it will not track individual transactions. Timmons thought this was not a serious policy proposal. Yellen rejected that and noted the $7 trillion tax gap. Timmons questioned what the tax gap had to do with the $600 transaction. Yellen said that banks already report on transactions over $10 and that the proposal does not collect individual transactions. Timmons referred to the committee hearing yesterday on the unbanked and thought that we needed more trust in financial institutions, not less. He rejected the idea that the American people would want something like this.