S. Hrg. 117–664

CARES ACT OVERSIGHT OF THE TREASURY AND FEDERAL RESERVE: SUPPORTING AN EQUITABLE PANDEMIC RECOVERY

HEARING

BEFORE THE

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS UNITED STATES SENATE

ONE HUNDRED SEVENTEENTH CONGRESS

FIRST SESSION

ON

EXAMINING TESTIMONY FROM THE SECRETARY OF THE TREASURY AND THE CHAIRMAN OF THE FEDERAL RESERVE, AS REQUIRED UNDER TITLE IV OF THE CARES ACT

SEPTEMBER 28, 2021

Printed for the use of the Committee on Banking, Housing, and Urban Affairs

Available at: https://www.govinfo.gov/

U.S. GOVERNMENT PUBLISHING OFFICE
52–157 PDF WASHINGTON : 2023

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

SHERROD BROWN, Ohio, *Chairman*

JACK REED, Rhode Island
ROBERT MENENDEZ, New Jersey
JON TESTER, Montana
MARK R. WARNER, Virginia
ELIZABETH WARREN, Massachusetts
CHRIS VAN HOLLEN, Maryland
CATHERINE CORTEZ MASTO, Nevada
TINA SMITH, Minnesota
KYRSTEN SINEMA, Arizona
JON OSSOFF, Georgia
RAPHAEL WARNOCK, Georgia

PATRICK J. TOOMEY, Pennsylvania
RICHARD C. SHELBY, Alabama
MIKE CRAPO, Idaho
TIM SCOTT, South Carolina
MIKE ROUNDS, South Dakota
THOM TILLIS, North Carolina
JOHN KENNEDY, Louisiana
BILL HAGERTY, Tennessee
CYNTHIA LUMMIS, Wyoming
JERRY MORAN, Kansas
KEVIN CRAMER, North Dakota
STEVE DAINES, Montana

LAURA SWANSON, *Staff Director*
BRAD GRANTZ, *Republican Staff Director*

ELISHA TUKU, *Chief Counsel*

DAN SULLIVAN, *Republican Chief Counsel*
MARK UYEDA, *Republican Detail*

CAMERON RICKER, *Chief Clerk*
SHELVIN SIMMONS, *IT Director*
CHARLES J. MOFFAT, *Hearing Clerk*

C O N T E N T S

TUESDAY, SEPTEMBER 28, 2021

WITNESSES

CARES ACT OVERSIGHT OF THE TREASURY AND FEDERAL RESERVE: SUPPORTING AN EQUITABLE PANDEMIC RECOVERY

TUESDAY, SEPTEMBER 28, 2021

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, DC.

The Committee met at 10 a.m., via Webex and in room 216, Hart Senate Office Building, Hon. Sherrod Brown, Chairman of the Committee, presiding.

OPENING STATEMENT OF CHAIRMAN SHERROD BROWN

Chairman BROWN. The Senate Committee on Banking, Housing, and Urban Affairs will come to order. This hearing is in a hybrid format. Our witnesses are in person. Members have the option to appear either in person or virtually.

For those joining remotely a few reminders. Once you start speaking there will be a slight delay before you are displayed on the screen. To minimize background noise please click the Mute button until it is your turn to speak or ask questions.

You should all have one box on our screens labeled "Clock" that will show how much time is remaining. For those joining virtually you will hear a bell ring at 30 seconds and then when time is expired. If there is a technology issue we, of course, will move on to the next Senator.

Our speaking order will be as usual, that is by seniority of the Members who have checked in before the gavel came down at 10, either in person or virtually, and then by seniority Members arriving later, alternating always, on this Committee, between Democrats and Republicans.

Welcome to our witnesses. We all remember the dark days of 2008, and the painful years that followed. Secretary Yellen and Chair Powell, you both helped us deal with the aftermath in your roles at the Federal Reserve.

When the biggest banks were in trouble, Washington, as always, sprang to action. "We have no choice. We cannot allow these banks to fail," we heard over and over and over again. But millions of families were allowed to fail. American workers bailed out the financial industry, but their livelihoods were not treated with the same urgency. Recovering their jobs, let alone empowering them to demand better ones, would have to wait for years.

By the end of 2013, the stock market had its best year in almost two decades. Eleven million people, though, were still out of a job.

The question before us today is the same question we have been grappling with for a year: Are we going to learn from our past mistakes?

Americans do not have to settle for another Wall Street-first recovery. We have the tools to do things differently. The only question is whether we are going to use them, for as long as it takes.

So far, we have worked to learn the lessons of the past and do better by American workers. That is what the CARES Act and the American Rescue Plan were all about. We put money in families' pockets, stimulus checks, Earned Income, Child Tax Credit, money spent always in local supermarkets and shopping centers on food and back-to-school supplies.

Treasury helped State and local governments get emergency rental assistance to 420,000 families in August alone and $950 million to help homeowners who are behind on their mortgages. The result has been record job growth. Job creation—I am going to say this twice—job creation in the first 7 months of the Biden administration, Madam Secretary, is nearly double any previous first-year President. Job creation in the first 7 months of the Biden administration is nearly double any previous first-year President.

It is not just the jobs themselves. It is the quality of these jobs. For the first time in decades, workers are starting to gain a little power in our economy, power to negotiate higher wages, power to fight for better working conditions, more control over their schedules and their futures. Progress, to be sure, but a long way to go.

We are down 5.6 million jobs since before the pandemic. Corporations too often use the pandemic as an excuse to "cut costs." We know that by "costs" they always mean jobs or wages or retirement contributions. They rarely mean CEO bonuses or, God knows, they do not mean stock buybacks.

Instead of hiring back loyal workers as business expands, companies outsource or contract out work, often paying people more or less half as much.

The Fed, for its part, has taken extraordinary action over the past year-and-a-half to stabilize our economy. But many of the Fed's efforts, Mr. Chairman, helped stabilize markets much more than they stabilized working families. Those actions have been a bonanza for Wall Street. Big corporate mergers are at an all-time high. The biggest banks have had one of their most profitable years ever, and we are, not to be reminded of it, all during a global pandemic.

The same companies that benefited from the Fed's actions want to "restructure" the workforce. They complain about a "skills gap" while refusing to cut into their stock buyback budgets to expand training programs or offer truly high wages.

This ought to be a reminder that we are still in the very early stages of recovery, and the same old Wall Street system is not good enough. Chair Powell, you have talked about your commitment to competitive labor markets, yet you have said that the test for full employment is, your words, "all but met."

Tell that to the working mother who was forced to quit her job because she could not afford childcare, or even find childcare. Tell that to the server who worked for decades at a major hotel chain, only to lose her job during the pandemic, and then be offered the same job by a contractor paying a fraction of the wages with no benefits. Tell that to a worker in my hometown in Mansfield, Ohio, who, for decades, watched companies close down factories and move good-paying, often union jobs abroad, only to have them replaced, when they were replaced at all, by low-wage, non-union jobs at a big box store.

Now is not the time to declare victory. Americans have watched this story unfold over and over again. Crash. Recession. Rapid Wall Street recovery. Years of slow, slow, painful, uneven job recovery, always within the same corporate system that treats quarterly stock prices as the only real measurement that matters, and treats workers as a cost to be minimized.

How many times are we going to continue to do this? How many times are Americans going to have to watch history repeat itself?

We cannot declare the recovery complete until all workers can find a job that pays them fair wages and treats them with dignity. The Fed cannot pull back every time workers gain a tiny bit of power to demand higher wages. The Fed cannot continue to rubberstamp mergers and allow corporate consolidation to go unchecked, and then wonder why job growth is not reaching whole regions of the country.

Full employment means a truly competitive labor market, one where everyone can get a job, and employers compete for workers. We have not seen that kind of labor market in decades, but we can. It is our job, it is this Committee's job, it is Treasury's job, it is the Fed's job.

Also, I also need to say a quick word about the games Republicans are playing with people's livelihoods. The debt limit—we all know this—the debt limit is not about future spending. It is about meeting obligations we have already made. It is the bipartisan, overwhelmingly popular CARES Act, the reason we are holding this hearing today.

Every single one of my Republican colleagues who served on this Committee last year, every one of them voted for the CARES Act. Every one of them, again, who served on this Committee before, voted for the $2 trillion tax cut for their wealthy friends. They did not seem to have a problem with the debt limit then, but now they do not want to pay the bill?

The partisan game is pretty transparent. We need to pay our bills on time. We have always done it. Treasury Secretaries, past and present, and across the political spectrum, are sounding the alarm about the economic devastation that they are threatening.

China watches all of this with glee, all too eager to see the dollar tarnished as the world's reserve currency, and we play right into that. We cannot play politics with the full faith and credit of the United States.

Last comment. Chair Powell, I understand you have initiated a review of the ethics and financial disclosure rules at the Fed after we learned of stock trades that at least two Federal Reserve Bank presidents made during the pandemic. I have a bill with Senator Merkley and Senator Warnock, also a Member of this Committee, the Ban Conflicted Trading Act, that would ban members of Congress from buying or selling any individual stocks. The same should apply to Fed officials. I am introducing a bill to do that.

Your job, the Fed's job, members of Congress' job is to serve the public, not their stock portfolios.

Ranking Member Toomey.

OPENING STATEMENT OF SENATOR PATRICK J. TOOMEY

Senator TOOMEY. Thank you, Mr. Chairman. Secretary Yellen and Chair Powell, welcome.

Last year, Congress, on bipartisan basis, forcefully responded to the threat of economic collapse caused by the pandemic and that resulting lockdowns. That response, together with the Fed's aggressive monetary policy support and the end to lockdowns, enabled the U.S. economy to fully recover. Our economy today is not only larger than it was before the pandemic, but we are now running above prepandemic GDP forecasts for this year.

Unfortunately, our Democratic colleagues are trying to ram through a reckless tax and spending bill that will threaten this economic growth. Their policies include massively expanding the welfare State, raising taxes on U.S. employers, and diminishing investment by raising taxes on capital gains.

Let's be clear about the purpose behind these proposals. It is not to spur economic recovery—the economy is strong. Nor is it an antipoverty plan—the programs are not limited to the poor. It is to redefine the relationship between the Federal Government and the middle class. It is about socializing many ordinary responsibilities that families have always assumed.

Instead of raising taxes to partially fund economically harmful programs, we should be working to return to the best economy of my lifetime, which we experienced just before COVID hit. We had the lowest unemployment rate in 50 years, including record low unemployment rates for Black and Hispanic Americans. Real median household income at an all-time high, and strong wage growth, above the rate of inflation, was particularly for lowest income earners.

This was all achieved by reforming the tax code, lowering tax rates, and lightening regulatory burdens, and now the Democrats colleagues are proposing to reverse all of these successful policies.

The Fed has clear and narrow mandates, to conduct monetary policy that promotes stable prices, maximum employment, and moderate long-term interest rates, and also to conduct banking supervision and maintain an efficient payment system. It is therefore concerning to see the Fed, especially its regional banks, wade into politically charged areas like global warming and racial justice. These efforts undermine the Fed's independence and distract from the Fed's actual responsibilities, like controlling inflation.

Speaking of which, the Fed's excessively accommodative monetary policy, emergency policies long after the emergency has passed, have produced the inflation that I feared and the Fed did not expect. We are now seeing rates of inflation considerably higher than the Fed projected, and it is hurting businesses, consumers, and workers.

And you do not have to just take my word for it. Here is what the CFO one of the biggest retailers in America, Costco, said last week, and I quote, "Inflationary factors abound: higher labor costs, higher freight costs, higher transportation demand, along with container shortages and port delays, increased demand in certain product categories, various shortages of everything from computer chips to oils and chemicals," end quote.

To address this threat, I urge the Fed to accelerate the process of normalizing monetary policy so that it does not fall further behind the curve in responding to inflation than it already has.

I am also concerned Treasury may be headed down a similar path of exceeding its authority. Too much fanfare, the Biden administration has announced an international tax agreement that consists of two pillars.

Pillar one is an unprecedented change that would allow foreign countries to tax American companies based on their sales overseas. It is a tax revenue transfer from us to them. Unsurprisingly, this is the priority for other countries who have long sought this tax revenue.

Pillar two is a global minimum tax on multinationals' foreign income. This is the Biden administration's attempt to justify burdensome tax increases on U.S. companies, and unsurprisingly, this is the Administration's priority and is part of its efforts to dismantle our successful 2017 tax reforms.

Now the Administration is imploring other countries to implement a global minimum tax that will harm their own workers and businesses, and by doing so, the Administration has implicitly acknowledged that their proposed multinational tax increases will make U.S. workers and businesses less competitive, if other countries either do not implement a global minimum tax of their own, or if they implement a significantly lower rate than what the Administration is proposing.

But there is a real possibility that other countries will not implement a global minimum tax for at least two reasons. First, the EU can only implement this global minimum tax by unanimous consent, which they do not have, which they do not have. And second, these countries have only reluctantly agreed to Pillar Two in return for Pillar One, which is the transfer of U.S. tax revenue from us to them. But implementing Pillar One in the U.S. requires a treaty ratified by two-thirds of the U.S. Senate. I think that is unlikely to happen.

So the Administration has implicitly admitted that their global tax hike will be a big problem for the United States if the rest of the world does not follow suit. But there is a very substantial risk that the rest of the world will not follow suit. And yet Democrats are charging ahead with this destructive tax increase in their reconciliation bill that apparently they are going to try to pass any day now.

So lots to talk about this morning. Secretary Yellen and Chairman Powell, I look forward to discussing these and other issues with you today.

Chairman BROWN. Thank you, Ranking Member Toomey.

I will introduce today's witnesses. Today we hear from Treasury Secretary Janet Yellen and Federal Reserve Chair Jerome Powell, and their agencies' continued actions to support an equitable pandemic recovery and make sure that our economy works for all Americans.

Secretary Yellen and Chair Powell, thank you for your public service. Thank you for your testimony today.

Madam Secretary, please proceed.

STATEMENT OF JANET L. YELLEN, SECRETARY, DEPARTMENT OF THE TREASURY

Secretary YELLEN. Chairman Brown, Ranking Member Toomey, Members of the Committee, it is a pleasure to testify today.

We are in the midst of a fragile but rapid recovery from the pandemic-induced recession. While our economy continues to expand and recapture a substantial share of the jobs lost during 2020, significant challenges from the Delta variant continue to suppress the speed of the recovery and present substantial barriers to a vibrant economy. Still, I remain optimistic about the medium-term trajectory of our economy, and I expect we will return to full employment next year.

A rebound like this was never a foregone conclusion. In fact, the American recovery is stronger than those of other wealthy Nations. One key factor for our overperformance is the policy choices that Congress has made over the past 18 months. Those choices include the passage of the CARES Act, the Consolidated Appropriations Act, and the American Rescue Plan.

Treasury, as you know, was tasked with administering a large portion of the relief dollars in those bills, and when we last met our Department was busy standing up programs to help individual families, State governments, and organizations of every size in between. While we still have much more work to do, we have made significant progress, and I wanted to give you an update.

Let's start with families. In July, our Department started sending the monthly expanded Child Tax Credit payments to the families of nearly 60 million children across the country. To date, $46 billion dollars in payments have been made, and we are already seeing the impact. Analysis by the Census Bureau found that after the first payments in July, food insecurity among families with children dropped 24 percent.

As for State, local, tribal, and territorial governments, COVID–19 decimated their budgets. There were mass layoffs, and to end the health and economic emergencies, we knew that communities would need funding to hire educators to bring kids back to school, for example, or frontline workers to administer the vaccine. The American Rescue Plan included $350 billion to that end, and those dollars are indeed helping the machinery of local governments get up and running. States and localities can rely on relief money that is available instead of resorting to painful budget cuts.

Congress rightly designed the State and local program with flexibility in mind. I think many of us knew the recovery could run up against some unforeseen challenges, and we wanted communities to be able to devote resources where and when they saw fit. I want to note that this flexibility is paying off now, especially with the spread of the Delta variant. Harris County, Texas, for instance, has used this funding to boost its immunization rate, offering $100 to each person who gets their first vaccine dose.

For the relief dollars not yet out the door, Treasury is doing everything it can to expedite their delivery. The Emergency Rental

Assistance Program is 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.

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 is why our 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 distribution of rental assistance funds.

I will end my remarks there except to say this. It is imperative that Congress address the debt limit. If not, our current estimate is the Treasury will likely exhaust its extraordinary measures by October 18th. At that point, we expect Treasury would be left with very limited resources that would be depleted quickly. America would default for the first time in history. The full faith and credit of the United States would be impaired, and our country would likely face a financial crisis and economic recession as a result.

We must address this issue to honor commitments made by this and prior Congresses, including those made to address the health and economic impact of the pandemic. It is necessary to avert a catastrophic event for our economy.

Senators, the debt ceiling has been raised or suspended 78 times since 1960, almost always on a bipartisan basis. My hope is that we can work together to do so again, and to build a stronger American economy for future generations.

Thank you, and I am pleased to take your questions.

Chairman BROWN. Thank you, Madam Secretary.

Chair Powell, you are recognized. Thank you for joining us.

STATEMENT OF JEROME H. POWELL, CHAIRMAN, BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Mr. POWELL. Thank you. Chairman Brown, Ranking Member Toomey, and other Members of the Committee, thank you for the opportunity to discuss the measures we have taken to address the hardship wrought by the pandemic.

Since we last met, the economy has continued to strengthen. Real GDP rose at a robust pace in the first half of the year, and growth is widely expected to continue at a strong pace in the second half. The sectors most adversely affected by the pandemic have improved in recent months, but the rise in COVID–19 cases has slowed their recovery. Household spending rose at an especially rapid pace over the first half of the year but flattened out in July and August as spending softened in COVID-sensitive sectors. Additionally, in some industries, near-term supply constraints are restraining activity.

As with overall economic activity, conditions in the labor market have continued to improve. Demand for labor is very strong, and job gains averaged 750,000 per month over the past 3 months. In August, however, gains slowed markedly, with the slowdown concentrated in sectors most sensitive to the pandemic. The unemployment rate was 5.2 percent in August, and this figure understates the shortfall in employment, particularly as participation in the labor market has not moved up from the low rates that have prevailed for most of the past year.

Factors related to the pandemic appear to be weighing on employment growth. These factors should diminish with progress on containing the virus.

The downturn has not fallen equally on all Americans, and those least able to shoulder the burden have been the hardest hit. In particular, despite progress, joblessness continues to fall disproportionately on lower-wage workers in the service sector and on African Americans and Hispanics.

Inflation is elevated and will likely remain so in coming months before moderating. As the economy continues to reopen, we are seeing upward pressure on prices, particularly due to supply bottlenecks in some sectors. These effects have been larger and longer lasting than anticipated but they will abate, and as they do, inflation is expected to drop back toward our longer-run 2 percent goal.

The process of reopening the economy is unprecedented. As it continues, bottlenecks, hiring difficulties, and other constraints could again prove to be greater and more enduring than anticipated, posing upside risks to inflation. If sustained higher inflation were to become a serious concern, we would certainly respond and use our tools to ensure levels that are consistent with our goal.

The path of the economy continues to depend on the course of the virus, and risks to the outlook remain. The Delta variant has led to a surge in cases, causing human suffering and slowing the recovery. Continued progress on vaccinations would support a return to more normal economic conditions.

The Fed's policy actions are guided by our dual mandate to promote maximum employment and stable prices, along with our responsibilities to promote the stability of the financial system. In response to the crisis, we took broad and forceful measures to support the flow of credit and to promote the stability of the financial system. Our actions, taken together, helped unlock more than $2 trillion of funding to support businesses large and small, nonprofits, and State and local governments between April and December of 2020. This, helped keep organizations from shuttering and put employers in a better position to keep workers on and to hire them back as the recovery continues.

These programs have served as a backstop to key credit markets and helped to restore the flow of credit from private lenders. We have deployed them to an unprecedented extent. Our emergency lending tools require the approval of the Treasury and are available only in unusual and exigent circumstances, such as those brought on by the crisis.

Many of these programs were supported by CARES Act funding. Those facilities provided essential support through a very difficult year and are now closed.

The Fed completed its sales of assets from the Secondary Market Corporate Credit Fund on August 31. We were able to wind down the facility rapidly and efficiently, with no adverse impact on credit conditions. We also recently closed the PPPLF to new lending, are managing the paydown of assets in our other CARES facilities as they wind down. We continue to analyze their efficacy and to review the lessons learned.

The Fed's actions affect communities, families, and businesses across the country. Everything we do is in service of our public mission. We will do all we can to support the economy for as long as it takes. Thank you.

Mr. Chair, if I may just offer one thing. What I said last week was that we had all but met the test for tapering. I made it clear that we are, and we are, in my view, a long way from meeting the test for maximum employment. Thank you.

Chairman BROWN. Thank you, Mr. Chairman.

Madam Secretary, last night my Republican colleagues blocked efforts to provide critical disaster relief to millions of Americans to keep the Government open and to raise the debt ceilings so that the Government can pay our bills on time, something we have always done bipartisanly, including right after the Republicans passed their deficit-busting corporate tax giveaway via reconciliation.

Be brief, if you would. What would be the impact on our economy if they block call efforts to raise the debt ceiling?

Secretary YELLEN. Chairman Brown, failing to increase the debt limit would have catastrophic economic consequences. It would cause the Government to default on its obligations, which is an utterly unprecedented event in American history. It would be disastrous for the American economy, for global financial markets, and for millions of families and workers whose financial security would be jeopardized by delayed payments.

For example, nearly 50 million seniors would, or could stop receiving Social Security payments or see them delayed. Our troops would not know when their paychecks would come. Thirty million families who rely on the child tax credit would not receive the monthly payment on time. Unemployment would surely rise and, as we saw in 2011, even coming very close to the deadline without raising the debt ceiling can undermine the confidence of financial markets in the credit-worthiness of the United States that led to a debt downgrade and soaring interest rates, which ends up raising payments on mortgages, auto loans, and credit cards.

Chairman BROWN. Thank you. You made clear that the debt ceiling is about money. We have already spent, like the CARES Act, that Republicans in Congress voted for and that President Trump signed into law, and now they want to run out and pay the bill. We know it is just wrong. They know it is just wrong.

Chair Powell, the most recent jobs report, as you point out, saw unemployment decreasing generally, but it also showed a continued racial unemployment gap, and the unemployment is rising for Black workers.

You committed to erring on the side of lower unemployment in a more competitive labor market. Thank you for that. But last week you announced that policy tightening will begin in November with tapering, that interest rate targets will increase next year. Why take away economic support just when workers are getting back on their feet and starting to see glimmers real wage growth, and when the recovery has failed to reach so many Black workers?

Mr. POWELL. Right now, we are buying $120 billion worth of securities every month, and all of those purchases add to accommodation. They are increasing accommodation. And we had set a test for beginning to taper those purchases of substantial further progress toward our statutory goals. We have not met that yet, but as I mentioned, I think we have all but met it on the path that we are looking at. We would continue to add accommodation, not subtract it, until well into the middle of next year. And we think that is appropriate given the strength of the economy.

The test for raising interest rates is substantially higher. And, you know, we want to see just, as you indicated at the beginning, we want to see a labor market that we both indicated, a labor market that is very strong. We want to see the kinds of reductions in disparities and the kinds of things that we did see before the pandemic arrived.

Chairman BROWN. Thank you. Secretary Yellen, the Conservative Niskanen Center said the expansion of the child tax credit would result in billions of dollars in spending, hundreds of thousands of jobs in local communities, particularly rural communities. We know raising a child is work and most of the parents getting CTC are really doing two jobs at home and in the paid labor force.

So, set the record straight briefly, if you would. Does the expanded child tax credit, particularly a fully refundable child tax credit, does it increase labor force participation and boost local economies?

Secretary YELLEN. I believe that it does. I think the evidence shows that very strongly, that it helps parents take care of their children. As I mentioned in my opening statement, we have seen that hunger, the number of families that feel their children do not have enough to eat drop substantially after the first round of payments. We see that parents are using the CTC payments to pay for basic needs, including food and clothing. And of course, it can be used for childcare and provide the kind of support that enables parents to take jobs——

Chairman BROWN. Thank you, and sorry to interrupt. Thank you for the way that you and Treasury have gotten those checks out monthly, starting in July. Thank you for that.

Last question. Chair Powell, the *New York Times* reported in February only 2 out of 417 economists employed by the Board of Governors, 2 out of 417 are Black. I appreciate you made diversity at the Fed a priority. I agree with what you said in that article—institutions that focus on diversity and do it well are the successful institutions in our society. Cutting it even closer, over its 108-year history, no Black woman has ever served on the Board of Governors, not one ever. Do you think the Board of Governors would be a more successful institution if a Black women had a voice and a seat at the table? Should we make that a priority?

Mr. POWELL. I would strongly agree that we want everybody's voice heard around the table, and that would certainly include Black women. And we, of course, have no role in the selection process, but we would certainly welcome.

Chairman BROWN. Secretary Yellen, do you agree with that, that it is time we had a Black woman on the Board of Governors?

Secretary YELLEN. I do. I think diversity is extremely important and that would certainly be a very welcome achievement.

Chairman BROWN. Thank you.

Senator TOOMEY. Thank you, Mr. Chairman. Let me begin by just stating the obvious. If the Government goes on a spending binge, that will certainly require more borrowing to pay for all that spending. Our Democrats have a spending binge underway. They are threatening to dramatically expand that. And if they get their way, that will certainly necessarily involve more borrowing than we would otherwise need.

The Democrats have chosen to ignore our warnings about this excessive spending but they want us to vote to raise the debt ceiling in order to permit the massive spending increases that they are planning. I would just remind everyone, just as the Democrats have the procedural ability to pass this spending on their own, as they intend to, hey have the exact same procedural ability to raise the debt ceiling on their own, which they inevitably will have to end up doing.

Mr. Powell, earlier this year there were certainly sectors of our economy, especially the sector sensitive to reopening experienced, pretty dramatic, but largely temporary price spikes. It seems to me now we are seeing a broader, more troubling kind of inflation. Input prices are soaring across the board. Raw materials, electrical components, energy, and consumer expectations seem to have internalized this. The New York Fed's most recent survey shows that they expect 5.2 percent inflation over the coming year.

Despite this and all the growth that we have talked about, as you point out, the Fed is still buying $120 billion in securities every month, and I guess my question is, doesn't the inflation we are seeing now seem broader and more structural in nature than the brief blip we saw, say, in used car prices earlier this year?

Mr. POWELL. Yes. I think it is fair to say that it is. Mainly what we have seen is that the supply side restrictions that are so much at the heart of the inflation we are seeing have not only not gotten better, they have actually, in some cases, gotten worse. Look at the car companies. Look at the ships docked, or with their anchors down outside of Los Angeles. And this is really a mismatch between demand and supply, and we need those supply blockages to alleviate, to abate before inflation can come down. We do believe that it will. However, if you look at measured inflation and what is contributing to it, most of it is still from a very small category of items.

Senator TOOMEY. But it is considerably broader than it was, and I would also point out, and I know you are aware of this, but the Fed's projections of inflation have consistently been off. They have consistently been low. And at some point I think we need to acknowledge that this is not playing out the way I think the Fed had hoped.

Let me shift the topic to a central bank digital currency. So I am increasingly intrigued by the opportunities that a properly designed central bank digital currency could provide to the U.S. To name a few, instant zero-cost payments, interoperability and programmability with smart contracts, international competitiveness all come to mind.

But getting the design correct, getting it right is essential. For instance, the privacy of Americans has to be respected. We should not design a central bank digital dollar that allows the Government to spy on Americans' every transaction. And the Fed is certainly not suited to be a retail bank, and so we certainly should not try to turn it into one. In my view, privately issued digital currency should be able to coexist with a digital dollar, if we go down that road, and private sector developers certainly should be able to innovate either on or in interoperable fashion with a digital dollar.

So I am not asking you to opine on any of these things, but it seems to me the decision about whether or not to go down this road is transformational, and there are very, very important and sensitive design issues that would have to be resolved. So I think that ought to be done in a transparent process with political accountability, which is to say, with congressional input.

Could you comment on how important you think it is to have congressional authorization if we are going to go down the road of a digital dollar?

Mr. POWELL. I would be glad to. And by the way, I agree, this is critical work that we want to take forward. So the relevant parts of our law were written long before digital finance was a thing, and a central bank digital currency could take many forms, it is possible that under some forms you would be able to make an argument that it would be authorized under current law. But I think this is such a fundamental issue. It would be ideal if this were to be a product of broad consultation, ultimately authorizing legislation from Congress.

Senator TOOMEY. Thank you. Madam Secretary, I want to talk about the tax agreement. As you know, Pillar One will fundamentally rewrite how profits are allocated among countries, and will cede U.S. taxing rights to foreign jurisdictions to some degree. Well, current bilateral treaties would need to be modified to implement this reallocation, and obviously this requires a treaty to implement, right? In fact, the international agreement itself, I think it acknowledges that by referring to a multilateral instrument, layman's terms, that is a treaty, and that will be necessary for this implementation.

So do you acknowledge that Pillar One requires a treaty and therefore a Senate ratification in order to implement it?

Secretary YELLEN. I believe there are a number of ways in which Congress could implement it, but certainly ratification of a treaty would be one way in which Congress could authorize. And certainly Congress has to authorize the transfer of taxing rights that is contemplated in Pillar One.

Senator TOOMEY. Well, I will finish Mr. Chairman, but I want to stress that we have, for many, many decades, had bilateral tax treaties that govern the amounts and the manner by which foreign Governments can tax American companies. Changing those treaties requires ratification in the Senate. There is no way around that, that I can see. Thank you.

Chairman BROWN. Thank you, Senator Toomey. Senator Tester is recognized from his office.

Senator TESTER. Thank you, Mr. Chairman, and I want to welcome both Chairman Powell and Secretary Yellen. This first question is for you Secretary Yellen.

Through the American Rescue Plan I have fought for, and we got targeted relief for local communities and States. I have heard some concerns that in Montana some of the funds that you have already gotten out from Treasury to the States specifically are not getting out for projects, and that proposes some problems, especially with winter coming on in Montana, that we might miss an opportunity to make upgrades to broadband or other critical investments. I have heard some folks in Montana, leadership, blaming this confusion that is caused by the Treasury Department because the funding is coming in two tranches. That does not make a lot of sense to me.

So Secretary Yellen, beyond the restrictions on uses of these funds provided by Congress, and through Treasury's guidance, is there anything that the Treasury Department is doing which would prevent States like Montana from receiving the funds in two tranches and using the funds that they have already received now?

Secretary YELLEN. Senator, there is no restriction that Montana faces in using the funds that have been allocated or making plans to use the funds that will be made available in the second tranche. That can be done now. There is absolutely no need to wait.

Senator TESTER. OK. So they can use that first tranche right now; no need new wait—because your mic was on and off there for a minute. Do they need——

Secretary YELLEN. Yes, that is right.

Senator TESTER. Thank you. Do they need your approval to start planning what they might use the rest of the funds for? And then to clarify, States with split payments do not need Treasury's approval to start getting the funds that they already have out the door. That is correct, just to make it absolutely clear.

Secretary YELLEN. That is correct, and they can plan how they intend to use the second tranche of funds as well. They can begin doing that now.

Senator TESTER. On the second tranche, do you have a timeline for getting the funds to municipalities and States who have received these split payments?

Secretary YELLEN. I believe it is a year lag between the payments.

Senator TESTER. OK. It is my understanding that the process for these funds has worked just as Congress laid them out, and it has been pretty predictable. Would you say that is correct?

Secretary YELLEN. Yes, I think it is correct.

Senator TESTER. OK. And then can you talk to me about the impact that you are seeing in the communities as program funds through the coronavirus State and local fiscal relief fund are getting up and running?

Secretary YELLEN. Well, I think we are already seeing significant impact of these funds. Some of it is being used for immediate pandemic response, vaccination efforts, helping unemployed workers, supporting small businesses, and some of it is being used to address longer-term needs, including broadband infrastructure, water, and sewer. And so these funds can serve a variety of needs, and are doing so.

Senator TESTER. OK. Secretary Yellen, I want you to respond to something the Ranking Member said, and I think he knows better. But he said that Democrats want the Republicans to expand the debt limit so that they can spend money. Is it not true that the debt limit is expanded because of money that is already spent, that it would be similar to you going down to a restaurant, ordering a steak dinner, paying for it on your credit card, and when the credit card comes back, you would say, "Nope, I am not paying for it." Isn't that similar to what we are talking about with the debt limit?

Secretary YELLEN. That is absolutely correct. It has nothing to do with future programs of payments. It is entirely about paying bills that have already been incurred by this Congress and previous congresses. And it is about making good on past commitments, as you said, paying our credit card bill.

Senator TESTER. Thank you very much. Thank you, Mr. Chairman. I yield.

Chairman BROWN. Thank you, Senator Tester. Senator Shelby from Alabama is recognized.

Senator SHELBY. Thank you. Welcome, both of you, Madam Secretary, Chairman Powell.

Chairman Powell, I will direct my first question to you. The Phillips curve is an economic concept that represents an inverse relationship between inflation and unemployment. Historically, it has been utilized to understand the relationship between unemployment and inflation, in particular, in relation to the Federal Reserve's dual mandate of price stability and maximum employment. You were aware of this, Mr. Chairman. Some economists question the current validity of this concept as a connection between inflation and unemployment has seemed to grow weaker in recent years.

Chairman Powell, is the Phillips curve still a valued economic model or tool, and have you observed any notable strengthening in the relationship between unemployment and inflation during the pandemic?

Mr. POWELL. Senator, if you go back to the high inflation area that we both recall, there was a very close relationship, a one-for-one kind of relationship, or close to it, between unemployment and inflation. That is no longer the case. There is still a relationship, but we say the Phillips curve is very flat, but it is not completely flat. So there is a relatively modest relationship. The slope of the line is seven degrees or something, so very flat. Is there any change that we observe in the near term? To get to your last question, not at this point, no.

Senator SHELBY. Do you watch the Phillips curve?

Mr. POWELL. Well, we do, but if you saw, we had 3.5 percent unemployment and very modest inflation for a couple of years before the pandemic. So it is not a top-of-mind concern. The inflation that we are having is, but it is really not related to the Phillips curve.

Senator SHELBY. Would you say that the Phillips curve concept is not valid right now?

Mr. POWELL. Well, it is not particularly binding right now. Inflation is high and the unemployment rate is high, so it is not really the binding constraint.

Senator SHELBY. OK. I will direct this question to the Secretary. The stepped-up basis, Madam Secretary, is a tax provision that allows for a beneficiary to adjust the basis of an asset to its current value, rather than its value of when originally purchased. We know that. This provision allows for beneficiaries to avoid paying high taxes on assets that have increased over time, largely due to inflation.

President Biden's American Families Plan includes a proposal to eliminate the stepped-up basis. A lot of people believe that such a change would result in a costly tax increase on family owned businesses, particularly on farms and ranches. According to a study by the Texas A&M Agricultural and Food Policy Center, 98 percent of the farms in its 30-State data base will be impacted by the Biden administration's proposal. The study calculates that the average additional tax liability for a farm to be over $720,000.

Madam Secretary, do you support eliminating stepped-up basis for State beneficiaries, and if you do, why?

Secretary YELLEN. Senator Shelby, I do support eliminating stepped-up basis. The reason is that a very large share of the income of wealthy individuals is simply never taxed. Individuals hold onto these assets during their lifetime. That income is never taxed. And we know that for some of the wealthiest individuals in the country, they pay very low taxes overall because most of their income takes the form of unrealized capital gains.

The Biden administration proposed that at death those gains be taxed. And with careful consideration, not in any way to harm the prospects of family owned farms or small businesses, there were substantial exemptions to protect them.

Even if there is not actually taxation imposed at death, getting rid of stepped-up basis would mean that an heir would inherit the original basis of the asset, and when that person eventually sold the asset, taxes would be paid. But I regard step-up of basis as a kind of loophole that allows a very large portion of income in this country of the wealthiest individuals to go untaxed.

Senator SHELBY. Thank you. Thank you, Mr. Chairman.

Chairman BROWN. Thank you. Senator Warner is recognized from his office, remote.

Senator WARNER. Thank you, Mr. Chairman. I want to go back and revisit with the Treasury Secretary some of the concerns we all share about potential default. I think we all, many of us, I know the Chairman and the Ranking Member were around when in 2011, our Nation got close to that kind of default.

Madam Secretary—and I particularly worry about some of my colleagues who are concerned, rightfully, about additional mandatory spending, but if we were to go into this default basis, would it not be expected that that would cause a lack of faith in the American Government's ability to meet its obligations, which, in all likelihood, would result in an interest rate spike? And is my math basically correct that if there were 100 basis point increase in interest rates, 1 percent increase in interest rates when we are looking at a $27 trillion debt, you are looking at more than a $200 billion a year additional mandatory interest payment, those interest payments because of that spike in interest rates comes before payment of Social Security, payment of our military, any of our other priorities? And if you extrapolate that on a 10-year basis for concerns about spending, would not that be close to an additional $2 trillion over 10 years of mandatory spending? Is there, Madam Secretary, anything faulty with that analogy or my math?

Secretary YELLEN. I do not believe there is anything at all faulty about the math. I think there is no question, but if Congress were to fail to raise the debt limit, or even if it was feared if we are getting close, and it looks as in 2011, like Congress might not raise the debt ceiling and we might not be able to pay our bills, that you would expect to see an interest rates spike. And if the debt ceiling were not raised, I think there would be a financial crisis and a calamity. And absolutely, it is true that the interest payments on the Government debt would increase.

I would be concerned that the dollar and Treasury assets, which are regarded as the most secure in the world and serve as the basis for the dollar to be the reserve currency, that it would undermine confidence in the dollar as a reserve currency. And the interest payments of ordinary Americans on their mortgages and on their cars and on their credit cards would all go up in line with higher Treasury borrowing costs. And it would increase our spending, absolutely.

Senator WARNER. And again, this is not something that you could then reverse if suddenly Congress came to its senses, once you saw any kind of spike in interest rates or confidence losing. Once this genie is out of the bottle there is no putting it back in. Is that correct?

Secretary YELLEN. I think that is correct. This would be a manufactured crisis we had imposed on this country, which has been going through a very difficult period, is on the road to recovery, and it would be a self-inflicted wound of enormous proportions.

Senator WARNER. And we all know that we are in an economic competition with China. Would not this effort in terms of a China that is trying to criticize our withdrawal from Afghanistan, and would not this give additional fodder to the Chinese arguments, and, you know, as you mentioned, undermining the confidence in the dollar as the reserve currency? Wouldn't this action potentially also give more credibility to China's efforts to try to make the RMB an equal to or potentially even more of a default reserve currency?

Secretary YELLEN. Well, certainly it would undermine confidence in our Government and in the role of the dollar and the safety of the dollar, which has really never been questioned. The dollar is the safe haven asset when times are turbulent, that people feel is absolutely secure. I think China has a long ways to go in reforming its financial markets before the renminbi is a serious rival to the dollar as a reserve currency. But I cannot think of anything more harmful to the role of the dollar than failing to raise the debt ceiling.

Senator WARNER. Again, I know my time is up, but I would just point out to my colleagues that are rightfully concerned about mandatory spending, you know, that interest rate spike and the, again, 100 basis points, roughly is $200 billion a year. My math says that is 2 trillion over 10. That would be spending we do not need to do, and we can all avoid that taking place.

Thank you, Mr. Chairman.

Chairman BROWN. Thank you, Senator Warner. Senator Kennedy from Louisiana is recognized.

Senator KENNEDY. Thank you, Mr. Chairman. Thank you, Madam Secretary and Mr. Chairman for being here.

Madam Secretary, when you were here last, and we all look forward to you coming, I asked you to tell me what you thought inflation would be at the end of this year, and you told me 2 percent. Do you still stand by that prediction?

Secretary YELLEN. Clearly inflation this year is going to be above 2 percent. Just the experience so far this year makes that clearly true. But I think we are seeing monthly inflation rates taper off.

Senator KENNEDY. Yes, ma'am. What do you think it will be at the end of the year, if not 2 percent?

Secretary YELLEN. Probably closer to 4 percent.

Senator KENNEDY. OK.

Secretary YELLEN. And that is already almost must be the case based on what has happened this year. But in my estimation, there are the types of supply bottlenecks that the economy——

Senator KENNEDY. OK. I do not want to spend too much time on inflation, and I am sorry to interrupt, but we have so little time and I talk slowly.

What party controls the House?

Secretary YELLEN. The Democrats.

Senator KENNEDY. What party controls the Senate?

Secretary YELLEN. The Democrats.

Senator KENNEDY. I believe we can agree that President Biden is a Democrat.

Secretary YELLEN. I believe.

Senator KENNEDY. OK. Senator Schumer, who is a Democrat, and my friend, controls the Senate floor, and he can raise the debt ceiling by just amending the budget resolution, cannot he?

Secretary YELLEN. It is possible that could be done.

Senator KENNEDY. Yes, ma'am. So why didn't he do it? Why do not you all do it?

Secretary YELLEN. Because this is not——

Senator KENNEDY. Let me just finish. Why do not you all just do it and then we do not have this fight?

Secretary YELLEN. Because this——

Senator KENNEDY. Why do you insist on doing it the hard way?

Secretary YELLEN. Because it is very important to recognize that raising the debt ceiling is about paying bills that Congresses——

Secretary KENNEDY. I know. But——

Secretary YELLEN. ——have incurred in the past.

Secretary KENNEDY. But I want to——

Secretary YELLEN. And it is a shared responsibility. Democrats have——

Senator KENNEDY. So why do not you—I agree with that.

Secretary YELLEN. The Democrats——

Secretary KENNEDY. Why do not you just amend the budget resolution?

Secretary YELLEN. Democrats have provided votes in the past when both houses of Congress, who are controlled by Republicans, when the Republican Party was in the middle of reconciliation. 2017 is a good example. And Democrats pitched in to do their duty to raise the debt ceiling.

Senator KENNEDY. But I just—I just—I know all that, and we—and I appreciate your perspective. But let me ask you again. There is a real simple solution. Why do not you all just amend the budget resolution? It just takes 50 votes by my Democratic friends and the Vice President. Why do not you just do that? Problem solved, done, easy peasy, finish. Let's go have a cocktail.

Secretary YELLEN. Well, it will be up to the leadership of Congress to decide——

Senator KENNEDY. Well, are you going to recommend they do that?

Secretary YELLEN. We will confer with them on what is the best strategy to move forward.

Senator KENNEDY. I have not been around this place as long as you have, but it is not often around here that we have a problem that has an easy solution, and this is a real easy solution. And I get politics. I understand why politically you folks want to have Republican fingerprints on the spending fiscal knife. I get that. But is your politics so important that you want to gamble here on the——

Secretary YELLEN. I want to make sure that——

Senator KENNEDY. ——sovereign debt of the United States when you have a very, very simple solution that you refuse to take?

Secretary YELLEN. I want to see that the debt ceiling is raised. As I have said, I believe it would be catastrophic not to do so. But I equally believe that deficits have been run under both Democratic and Republican administrations. It is important to recognize that. And that means that paying the bills for those deficits is a shared responsibility, and it should not be the responsibility——

Senator KENNEDY. I agree with that.

Secretary YELLEN. ——of any one party.

Senator KENNEDY. Very eloquently put. But it is a fact, isn't it, that you and your folks just want Republican fingerprints on the Democrats' effort to tax, spend, and regulate America into Europe. Now it is your prerogative to do that, but this is all about the Administration's desire to have Republican fingerprints on it, and later call it bipartisan. And you know that, Madam Secretary, with all the respect I can muster, and so do the American people.

Thank you, Mr. Chairman.

Chairman BROWN. Senator Kennedy, I rarely speak between witnesses, but I wonder if Secretary Yellen takes you up on that offer to go get a cocktail, if you would pay or you would skip out on paying the bill or expect Secretary Yellen to pay?

Senator Menendez is recognized from New Jersey.

Senator MENENDEZ. Thank you, Mr. Chairman. I had not intended to pursue this line of questioning but I must say my distinguished friend and colleague from Louisiana always sparks my interest.

Republican fingerprints were all over the tax cuts to the wealthiest people and corporations in America to the tune of $2 trillion.

Republican fingerprints, for the many years that they were in a majority, were all over the budget spending that was unpaid for. Republican fingerprints are all over the politics of this now.

When Democrats were in the minority, Democrats did the fiscally responsible thing. They voted with Republicans to recognize the debt that had already been inherited, not a debt to come, but that which had already been inherited. You all created a significant part of this debt, and now you want to walk away from it. I know that President Trump was the king of debt and bankruptcy, and maybe you have adopted that as your view, but it is not a view in the national interests of the United States. So I love that my friend sparks my concerns.

In any event, let me turn to my real purpose here. We have discussed at length how diversity remains a problem at both of your agencies. Chairman Powell, during your tenure, the number of minorities in management positions have barely budged. In the most recent report, the Fed's Office of Minority and Women Inclusion states, quote, "The Hispanic participation in our workforce has remained steady over the past 5 years." Steady. Well, when it is already pretty dismal, steady does not really do very much for me. "We recognize that our prior efforts," it goes on to say, "have resulted in minimal progress."

So my question is, what are you doing about it? What are you doing about it?

Then let me just make this a joint question. Secretary Yellen, I see the same thing happening at Treasury. I have raised this from the date of your confirmation proceedings to most recently. I am really chagrined that I have to be forced to consider not voting for nominees because it is the only way to get the attention of these agencies. But if you are sitting as one of the few Hispanic American Senators and seeing what is coming forth from this Administration, especially in these two sectors, it is abhorrent.

So what are we going to do about it? Chairman?

Mr. POWELL. Let me start briefly by agreeing that if you look at successful organizations in the United States, private and public, you will almost always see a successful approach to diversity, a focus on diversity from the top. So I think it really starts with making diversity a high priority. I have done that. My predecessors have done that. If you talk to any of our senior leadership, the people who do the hiring, the people in all the divisions, you will see that they talk about diversity, that they focus on diversity and hiring. It is not easy to move——

Senator MENENDEZ. But if it is a high priority, it is a dismal failure. I mean, I hear high priority, but, you know, the proof is in the pudding and it is just not there. So I do not know how high a priority it is when we continue to have the same types of numbers. Madam Secretary.

Secretary YELLEN. Senator Menendez, I would say that it is a high priority at Treasury. With respect to political appointments that I have been involved with, we are very focused on recruiting and hiring Latinos, and we have been engaging with Latino interest groups to identify and source candidates. Just over the past several weeks, we have extended three offers to Latino candidates, including two Latinas who will serve in leadership roles within the Department of the Treasury, and we will announce those soon.

In hiring within the Department as a whole, we track very carefully the demographic composition of our workforce, and it is a high priority to improve diversity. Every Treasury bureau has a partnership with Hispanic-serving institutions and Hispanic community organizations. We have employee——

Senator MENENDEZ. Well, I do not mean to interrupt you, but I look forward to seeing actual nominations. Every nomination that I have been asked to cast a vote on here certainly is not Latino.

Secretary YELLEN. They are not all Senate-confirmed, but they are senior leadership positions.

Senator MENENDEZ. OK. Then I would love to see those that are not Senate-confirmed because as far as I can see the numbers have not changed. So I look forward to the announcements because I would love to applaud progress in a significant way.

If I may, Mr. Chairman one last question.

Chairman BROWN. Sure.

Senator MENENDEZ. Chairman Powell, you know, for the Latino community but beyond, expanding access to childcare, would not that improve the labor force participation rate among women? I know so many women who want to get back in the labor force, but they have no access to any affordable childcare that, at the end of the day, allows them to do so.

Mr. POWELL. There is a good bit of research that would support that conclusion. Yes.

Senator MENENDEZ. Thank you.

Chairman BROWN. Senator Lummis of Wyoming is recognized.

Senator LUMMIS. Thank you, Mr. Chairman, and let me say something on behalf of the people I represent in Wyoming. This is not pointed to either party. This is pointed to the Congress of the United States. It is absolutely irresponsible that we are $28 trillion in debt and that both parties sit here and blame each other for what they both did irresponsibly. It is absolutely unconscionable what we have done to the people of this country. It is both parties' faults. It is the Congress' fault and we need to address it, but we are so busy making each other look like the rat's rear end that we will not address the real problems in this country that led us to be $28 trillion-plus in debt, and now asking to get further in debt. I am horrified. My constituents are horrified. This has got to stop.

That said, now I will turn my attention to the Secretary. Secretary Yellen, speaking of horrified, my constituents cannot believe that you support a proposal to require banks and credit unions to report customer data to the Internal Revenue Service for transactions of $600 or more. There are obvious privacy concerns for all Americans here, and this represents a dramatic new regulatory burden for community banks and credit unions in Wyoming and elsewhere. Our banks will have to hire contractors to rat on their customers, implement new computer software, deploy resources better used elsewhere in order to collect data for the Government.

Bank customers are not subjects of the Federal Government. Banks do not work for the IRS. This is invasive of privacy. Wyoming's people literally will find alternatives to traditional banks just to thwart IRS access to their personal information, not because they are trying to hide anything, but because they are not willing to share everything.

My question is, are you aware of how unnecessary this regulatory burden is? Do you distrust the American people so much that you need to know when they bought a couch or a cow? I am astounded by what you are supporting and proposing. I think it is invasive. I think privacy for individuals is getting ignored. And I think treating the American people like they are subjects of the Government is unconscionable.

Secretary YELLEN. Well, Senator Lummis, I really disagree with the assessment that you have, and I think you misunderstand the proposal. Banks already report directly to the IRS the interest that they pay on accounts when it exceeds $10. And this is not a proposal to provide detailed transaction-level data by banks to the IRS. It is a proposal to add two additional pieces of easily ascertained information onto the 1099–INT form that banks already file, namely the aggregate inflows into the account during the year and the aggregate outflows.

And I think it is important to recognize that we have a tax gap that is estimated at $7 trillion over the next decade. That is taxes that are due and are not being paid to the Government that deprive us of the resources we need to do critical investments to make America more productive and competitive.

And the reason that that tax gap, in part, exists, partly it is because the IRS has been deprived of revenue to hire auditors, but the IRS has a wealth of information about individuals. If you work at a job where you get labor income, a W–2 is filed and sent. There are dividend payments and transactions payments that are sent to the Government. But there are a class of partnerships, businesses, high-income individuals who have opaque sources of income that the IRS does not have direct information about and that is where the tax gap is, not low-income people. And this additional information would help to——

Senator LUMMIS. Well, $600 threshold is not usually where you are going to find the massive amount of tax revenue you think Americans are cheating you out of.

Secretary YELLEN. That is correct, but it is important to have comprehensive information so that individuals cannot game the system and have multiple accounts.

Senator LUMMIS. Mr. Chairman, I yield back.

Chairman BROWN. The Senator from Massachusetts, Senator Warren, is recognized.

Senator WARREN. Thank you, Mr. Chair. Thank you both for being here today.

Chair Powell, during your time as chair, you have taken plenty of actions to weaken the Fed's regulatory oversight of our largest banks. So today I want to talk about three instances of that and ask you to think about them in hindsight.

First, the stress test. Now these are designed to tell whether or not big banks can survive without a taxpayer bailout. When the tests were first set up, bank supervisors could restrict stock buybacks and dividend payments to strengthen the bank's balance sheet. In 2019, you took that power away. And we now know, from the Fed's own research, that when the economy hit choppy waters last year, those banks needed stimulus from the taxpayers and that without this taxpayer help they would have faced up to $300 billion in losses, meaning that they were in a sharply weakened position to withstand the stress.

Chair Powell, do you regret weakening the stress test?

Mr. POWELL. I do not think we have weakened the stress test, and I am not sure what you are referring to. When banks fail the stress test, their distributions are limited.

Senator WARREN. So I laid it out here that you took away the power to restrict stock buybacks and dividend payments that could be used to strengthen the balance sheet. You do not see any changes you made to the stress test and handling stress tests out in advance?

Mr. POWELL. Senator, capital in the largest banks is at multi-decade highs.

Senator WARREN. That is not my question. I am looking at the Fed's own research which says that without the help that you had to put into the economy last year, they would have faced up to $300 billion in losses.

Look, I do not want to argue with you about what capital——

Mr. POWELL. Which they would have met. Which they would have been able to absorb without difficulty.

Senator WARREN. Let me ask you the question then. I take it you do not have any regrets about any changes to the stress test?

Mr. POWELL. Not really. I mean, I am prepared to look at—anything we did is fair game to look at again, but I do not think so. No.

Senator WARREN. OK. But let me ask about another action. In 2020, the Fed, along with the other agencies, removed the Volcker rule restrictions on whether banks could cosponsor so-called family funds. And then earlier this year, we watched the collapse of a quote/unquote "family fund" called "Archegos," which caused banks to suffer a quick $10 billion in losses.

Given the Archegos collapse, do you regret weakening the Volcker rule?

Mr. POWELL. That is actually a family office, Archegos is. I do not know that there are any Volcker rule implications for Archegos. I will say we have looked at the Archegos situation closely, and I think learned our lessons from that.

Senator WARREN. Learned your lessons, but do you have any regrets about weakening the Volcker rule around family funds, having watched what Archegos did?

Mr. POWELL. I would have to understand the Archegos connection. Generally, it was widely agreed that the Volcker rule as implemented was complex and not workable. We took a fresh look and——

Senator WARREN. OK. I will take that as a no. I just want to make sure I can get through all three of these.

One last example. In 2019, the Fed weakened liquidity requirements, the rules that ensure that firms have adequate cash to meet their obligations. For banks between $250 and $700 billion dollars in assets, the liquidity requirement was cut by 15 percent. So let me just ask, do you regret slashing liquidity requirements designed to protect markets from crashing like they did in 2008?

Mr. POWELL. So that was tailoring, which the law that had been passed through this committee required. I do not see that there has been any evidence that that was a bad idea, but it is one that could certainly be looked at again.

Senator WARREN. OK, so you would be willing to at least look at that one again?

Mr. POWELL. Yes.

Senator WARREN. OK. This cut by 15 percent.

You know, Chair Powell, the elephant in the room is whether you are going to be renominated for a second term as Fed chair. Renominating you means gambling that for the next 5 years a Republican majority at the Federal Reserve with a Republican chair who has regularly voted to deregulate Wall Street will not drive this economy over a financial cliff again. And with so many qualified candidates for this job, I just do not think that is a risk worth taking.

I know that some argue that your deregulatory actions are mostly harmless. I disagree. I think they have put taxpayers at risk for hundreds of billions of dollars. But even at that, so far you have been lucky, but the 2008 crash shows what happens when the luck runs out. The seeds of the 2008 crash were planted years in advance by major regulators, like the Federal Reserve that refused to rein in big banks.

I came to Washington after the 2008 crash to make sure that nothing like that would ever happen again. Your record gives me grave concern. Over and over you have acted to make our banking system less safe, and that makes you a dangerous man to head up the Fed. And it is why I will oppose your renomination.

Thank you, Mr. Chair.

Chairman BROWN. Senator Rounds from South Dakota is recognized.

Senator ROUNDS. Thank you, Mr. Chairman.

Well, needless to say, Chairman Powell, I would probably disagree with my colleague, and I commend you for the hard work that you have done, and I most certainly think that you do deserve to be renominated to the position that you have right now, and I look forward to working with you for the next several years.

Chairman Powell, I would like to ask you about the supplementary leverage ratio, the SLR exclusion that the Fed and the other banking regulators instituted during the pandemic that allowed banks to exclude ultra-safe assets, including U.S. treasuries and deposits to the Fed from their balance sheets. This exclusion allowed the banks to take in the extraordinary amount of deposits that we saw during the pandemic without having to grapple with needless capital requirements.

I am just curious whether or not you believe that that move was successful and whether or not you would see any possibilities of perhaps a continuation of that in the future?

Mr. POWELL. So it was important that we did it in the crisis, and it worked. I think it is less binding now because of all the money that is now at the reverse repo facility.

Ultimately, we do not want leverage ratios to be the binding constraint on banks because we think that that gives them the incentive to take more risk. I would say we need to be very careful with the supplemental leverage ratio because we want to make sure that any changes we make to it will not reduce the overall bindingness of the capital requirements for the largest institutions. But it is something we would look at modifying, and it is one of the things we are looking at right now.

Senator ROUNDS. Presumably you felt that you received pretty positive feedback from the institutions that were impacted by this particular modification of the rule.

Mr. POWELL. Yes, and that was an emergency situation. When the emergency ended, we allowed that provision to lapse. But I think overall though, with all the liquidity in the system, it could again become the binding constraint and that would not be good from a safety and soundness standpoint.

Senator ROUNDS. Thank you. Secretary Yellen, welcome.

Secretary YELLEN. Thank you.

Senator ROUNDS. It is good to see you again. I would like to direct this question to you. During our last quarterly CARES hearing, I inquired about the severe backlog of tax returns facing the IRS as approximately 2.4 million tax returns remained untouched by the IRS at that time, many of which were from 2019. That number only continued to grow with an approximate 35 million backlogged tax returns at the end of June, when the National Taxpayer Advocate released the midyear report to Congress.

When I originally asked about the IRS's possible plan to address the backlog, you responded that you had not yet had a discussion with the IRS commissioner about this particular issue, but you did provide assurances that you would work with me and my office and remain committed to developing a plan to address the backlog. After receiving no correspondence following the hearing, I sent a letter to you asking these same questions to which I have also not yet received a response.

So my question, Secretary Yellen, I am asking for a third time, have you discussed the IRS's plan to address its immense backlog of tax returns with the IRS commissioner? If so, what is the plan?

Secretary YELLEN. We have discussed this with the IRS commissioner and he is addressing it and I would be happy to get you more details. My apologies if we have not responded in a timely way. I promise to do so quickly.

Senator ROUNDS. So it would be fair to say that the IRS does have a plan in place to prevent this level of backlog in the future?

Secretary YELLEN. We are trying to add to the IRS's resources so that they will be able to handle these things in a more expedited fashion.

Senator ROUNDS. We can perhaps expect a communication from your office here in the next 5 days or so?

Secretary YELLEN. We will try to get you that communication.

Senator ROUNDS. Thank you. Also, Secretary Yellen, with the Treasury quickly approaching the debt limit, and I know that this is something which you have identified it and have expressed concern over, it makes one question when America might become the next Greece. When, in your view, when do we have to say enough is enough when it comes to our deficit and our debt?

Secretary YELLEN. So one, in thinking about what is a reasonable level of debt, there are a number of different metrics that one might look at. Commonly, debt-to-GDP ratios are a measure that is widely used. Ours is a little bit over 100 percent, which traditionally has been regarded as high. But we are in a very low-interest-rate environment, that is been true for a very long time, and is likely to be true going forward.

And an alternative, and I think better measure of fiscal sustainability is to look at the real net interest cost of the debt. What is it in real terms costing to service the outstanding debt? And for the last several years, that is been negative. And even if interest rates, 10-year rates and the Treasury yields revert in future years backup to more normal levels, the interest cost, which really is the burden, is projected to remain low. The plans that the Biden administration has put forth, we keep that low, at under 1 percent of GDP.

Senator ROUNDS. Thank you. My time has expired. Thank you, Mr. Chairman.

Chairman BROWN. Thank you, Senator Rounds. Senator Smith of Minnesota is recognized.

Senator SMITH. Thank you, Mr. Chair, and welcome to Secretary Yellen and to Chair Powell. I am going to direct my questions to Secretary Yellen today, and I would like to start with the question of emergency rental assistance. I think we have all seen that the pandemic has not been a great equalizer. It has laid bare the deep inequities in our society, particularly, I would argue, in housing. With COVID, you know, we are all in the same storm but we are not all in the same boat.

What this looks like in Minnesota is the following. There are about 60,000 families in Minnesota that are behind on rent, and to support those families, we all worked hard here in Congress to get the emergency rental assistance. So far, however, only about 15,000 families have received help through Minnesota's Emergency Rental Assistance Program, and that is not nearly good enough. And this is particularly troubling because about two-thirds of these families are families of color and indigenous families. So if this program is not working, it is disproportionately hurting them.

So Secretary Yellen, here is my question. I appreciate that Treasury has worked hard to clear away the red tape at the Federal level to make this program work better, and I appreciate that this is being run at the State level, and often also at the local level. What can you tell us about what you are doing to make sure that renters are not hurt as Treasury approaches this recapturing of emergency rental assistance funds?

Secretary YELLEN. Well, we want to make sure that renters are helped and we have been, as you noted, working hard to provide the support to State and local governments to put in place effective programs. But the ERA1 statute requires Treasury to begin reallocating excess funds that will be required as of September 30th, and Treasury is developing a procedure to govern that process. We want to make sure that localities with demonstrated need receive additional funds and that they come from places that are not running effective programs or have less need. And we will be looking at reallocation in order to improve the effectiveness of the program.

Senator SMITH. Secretary Yellen, in Minnesota about 30,000 applications remain to be processed, which is a sign, I think, of the great need in our State. Can Treasury approach this, looking at these large backlogs of applications that are remaining to be processed, that are in other words sort of in the system right now as you are working on this?

Secretary YELLEN. I mean, we will look at backlogs. We will look at the effectiveness with which States and local governments have gotten out the rental assistance that they have. We want to see, before additional funds are made available, that the ones that are available have been allocated effectively. But if that is true and there is clearly additional need than those places would be eligible to receive additional funds.

Senator SMITH. Thank you. I appreciated, in your opening statement, that you talked about the mammoth task of standing up infrastructure at the State and local level in order to distribute this rental assistance. And as you move forward with this, following the law, we need to make sure that the folks that are really needing the help are not the ones that are getting penalized because of slower than we would have liked implementation of this program. So I appreciate your comments and I look forward to continuing to work with you on this as well.

Secretary YELLEN. Very good. We do as well.

Senator SMITH. I just have about a minute left and I want to just touch briefly on the question of childcare. We know that childcare is a family and an economic imperative, and I am really grateful to the work that you have been doing. I appreciated very much the Treasury's recent report on the childcare supply challenge and the great difficulties we have here.

Secretary Yellen, Minnesota childcare providers tell me that they are really struggling to find and keep workers. They are painfully aware that they are not able to pay their workers as much as they are worth and as a result there is high turnover in the sector. Now, when most businesses encounter challenges in hiring, they raise wages to attract people. Can you just explain to everybody why that is not a feasible option for folks that are trying to make the system work in the childcare sector?

Secretary YELLEN. Well, in many ways, this is a market and this is what the Treasury report showed that just does not work, that parents, when they most need childcare, are unable to borrow in order to cover it, and so they are struggling with very high childcare expenses at a moment in their lifetime when they can often simply not afford it, and that puts the childcare providers in a situation where they just cannot afford to pay wages that are living wages.

And, in fact, a substantial fraction of childcare workers receive some additional social support because the wages are so low, and we really need to fix that. It is a broken market, and there are huge gains to society for making sure that children have quality childcare, and it influences the course of their success over their whole lives.

Senator SMITH. Well, thank you for that. And, Mr. Chair, I know we are out of time, but we have a solution to this problem that is included in the Build Back Better plan that President Biden has proposed and that we have been working on in the Senate and the House. And I look forward to getting that solution passed into law to address these systemic problems in childcare. Thank you.

Chairman BROWN. Thanks, Senator Smith. Senator Scott of South Carolina is recognized.

Senator SCOTT. Thank you, Mr. Chairman, Ranking Member. Thank you to both witnesses for being here this morning. Good morning. I know you all have difficult challenges that we all face as a Nation and it looks like they are getting more difficult, not less difficult.

Democrats control the White House, the Senate, the House. They have the votes to raise the debt ceiling. Unfortunately, they also have the votes to fundamentally weaken the greatest economic engine in world history. What they do not have the votes to do is to force Republicans to be complicit with their reckless spending spree. Killing the goose that lays the golden eggs is not just bad for the goose. It is bad for everyone who depends on the eggs as well.

There is nothing compassionate about spending money we do not have on new benefits we cannot afford, all the while discouraging work and increasing the likelihood of a future default, when the yet-to-be-born American receives the bill for benefits she did not experience and are no longer available.

It is also important to note that our labor force participation rate is down, not up, even with the new programs and the payouts that I heard this morning during this hearing that somehow is supposedly increasing our labor force participation, when, in fact, it is apparent and clear to Americans that is not the case.

Chair Powell, you know as well as I do, and certainly maybe neither one of us knows as well as the folks working paycheck to paycheck around this Nation or the seniors depending on their Social Security checks to make their ends meet, that inflation is having a devastating impact on people on fixed income, people working paycheck to paycheck. I think about the fact that gas prices are up over 40 percent as a Nation, and frankly, over the last few days we have seen signs that it is going to only get worse, not better. The gas prices are going up over $3 a gallon in so many parts of this country, and frankly, even higher in other parts. The fact that food, whether it is bacon or fish, meat, all are up double digits.

Can you point to any specific policies put in place by the current Administration that may be exacerbating the runaway rise in food and energy prices in recent months?

Mr. POWELL. Senator, that would not be for me to do, but I think those things are—I would not be identifying policies of the current Administration.

Senator SCOTT. Would you agree that the fact is that when we have limited supply and an increasing demand, that a $1.9 trillion COVID relief that has spent less than 1 percent on vaccines and 9 percent on COVID-related health only adds more pressure on our markets, and that pressure results in higher inflation?

Mr. POWELL. Senator, we have some really difficult and important jobs, but one of them is not commenting on fiscal policy, I am sorry to say, with respect.

Senator SCOTT. I do think that it does include inflation and employment. Aren't those two major aspects of being the Chairman of the Reserve?

Mr. POWELL. Those are the two major aspects.

Senator SCOTT. Indeed. And so when you see policies that are put in place that has not increased our labor force participation but decreased our labor force participation rates, and you see policies that are actually designed, so I heard earlier this morning, to put people back at work, in fact that number is going down, you see that the impact of the inflationary, what I thought was transitory, that is what we heard earlier this year when I asked you all both the question about inflation in this country, seems to me that we are heading in the wrong direction.

Let me ask Secretary Yellen. The phase of spiking inflation, slowing growth, lingering high unemployment, and historic levels of Government spending and Government debt, how do we justify supporting President Biden's $3.5 trillion tax spend package?

Secretary YELLEN. Well, first of all, the package is paid for, so there is——

Senator SCOTT. How is it paid for, ma'am?

Secretary YELLEN. There are increases in taxation on corporations and——

Senator SCOTT. May I ask you a question?

Secretary YELLEN. ——high income individuals.

Senator SCOTT. Let me ask you a question on that while I have you here. Do you think that taking the cap gains tax from 23.8 percent to 43.8 percent will encourage more investment in our economy or less investment in our economy? Do you think that taking the corporate tax from 21 percent to 28 percent will actually—we both recognize that corporations, they may write the check, but the people who pay the tax are the consumers and the employees with fewer increases in wages and lower benefits. How do we think that these higher taxes are going to lead to more opportunities in our marketplace?

Secretary YELLEN. Well, first of all, I think that the likely impact on investment spending is very small, and I think, in 2017, when taxes were cut substantially, you did not see any surge in investment spending. Instead, what you saw was a surge in stock buybacks. So the linkage between investment spending and the corporate tax rate is really very modest. Mainly it falls on excess profits. So I think the Biden package, the Build Back Better package, will improve corporate competitiveness because it is going to invest in critical infrastructure in our economy——

Senator SCOTT. Thank you. Secretary Yellen, I do not want to cut you off but I have no choice because Chairman Brown is going to cut me off. So before I lose my time here, thank you, Chairman, for——

Chairman BROWN. You already have lost your time, but proceed, Senator Scott.

Senator SCOTT. You are a patient Chairman, and I appreciate that more than I could say.

I am so glad that you brought up the 2017 tax reform package that we worked so hard on. Bottom line is I would say that as someone who watches the market, and I know you watch it very closely, the fact is that in 2018, in 2019, we saw more revenue to the Government, not fewer dollars for the Government. And to think that taking the corporate tax from 21 to 28 percent is somehow going to make us more competitive against our OECD competitors, I know that you have a strategy to raise our guilty and make us more competitive somehow by having other countries agree to higher taxes.

I will just say that the proof will be in the pudding and maybe you and I will be here in a couple years to have a conversation about the results of the tax increase that will make us less competitive and not more competitive, but thank you for your graciousness.

Thank you, Mr. Chairman.

Chairman BROWN. Senator Van Hollen of Maryland is recognized.

Senator VAN HOLLEN. Thank you, Mr. Chairman. I thank both of you for your service.

Madam Secretary, just to pick up on that last thread because we have heard it throughout this morning, our Republican colleagues trying to have it both ways. On the one hand, they beat up on our proposals to reform the corporate tax code to make it more fair, to make sure that every multinational corporation pays its fair share, that they cannot park their profits in the Cayman Islands and other places. And then on the other hand, they say, "Oh, this reconciliation bill is going to add to the deficit," and they tie it into this debt ceiling debate.

Let's just be very clear. The Build Back Better agenda that President Biden has proposed would pay for itself through some of the tax reform measures you mentioned, right?

Secretary YELLEN. Yes, absolutely. It will pay for itself.

Senator VAN HOLLEN. Right, which is very different than the 2017 Trump tax giveaway to big corporations that did not have a penny to pay for it. Isn't that correct?

Secretary YELLEN. That is correct. It resulted in very large increases in deficits, and the Biden package will not. And beyond a 10-year horizon, it will improve tax collections and reduce deficits substantially.

Senator VAN HOLLEN. Right. And let's now talk about one of the tax cuts we want to extend, right, which is the tax cut for middle-income and lower-income families with kids. We estimate that this year that cut child poverty in half in the United States, right?

Secretary YELLEN. Yes, the child tax credit and other features.

Senator VAN HOLLEN. But that expires at the end of the year, does it not?

Secretary YELLEN. It does, and we think it is important to extend it. It is really critical support to families that are trying to raise children. And we have already seen in 3 months of distributing these child tax payments spending on food that has reduced food insecurity, on apparel, and on children and their well-being. It makes a huge difference.

Senator VAN HOLLEN. Right. So let's just be clear. We are hearing Republicans this morning beat up on us for closing big loopholes in the corporate tax cut, in part to pay for an extension of tax cuts for middle-income families with kids——

Secretary YELLEN. That is right.

Senator VAN HOLLEN. ——which cut child poverty in half this year. And I guess their position is, "Well, let's just let it lapse, and then we can have child poverty double in the years to come."

Madam Secretary, I have series of questions. Some of them I am going to put you for the record on the issue you raised with respect to the emergency rental assistance. And I share your concern that this money has not gotten where it is needed quickly enough, and I appreciate some of the measures you have taken recently to allow renters to self-certify income and financial hardship.

I hope you will also make it clear that with the appropriate safeguards, landlords can submit applications in bulk on behalf of tenants, and we will be following up with you on that.

Also, I heard you responding to Senator Smith. Can you give us assurances that as we reallocate some of these funds, and I understand why you want, that we are not going to harm the very people we wanted to help simply because their local government could not get the funds out as quickly as some others?

Secretary YELLEN. We will certainly try to avoid that. We are aware of that possibility, and we will try to reallocate, for example, within States so that individual who are not being helped locally will have access.

Senator VAN HOLLEN. Right. I am also going to follow up with you on, in Baltimore City's case, the Treasury has said that they can use their funds to try to bring back tourism, which is a good thing——

Secretary YELLEN. Yes.

Senator VAN HOLLEN. ——but they cannot use their funds to try to bring back families who may have left Baltimore City during this pandemic to live in other places, even though bringing them back would not just be a one-time tourist investment in the city, but a long-term investment. I will follow up with you on that.

Secretary YELLEN. I would be happy to do so.

Senator VAN HOLLEN. Chairman Powell, you have spoken to it generally, but you heard Secretary Yellen's assessment of what the impact on our economy would be if we did not lift the debt ceiling and defaulted. Do you agree with the assessment she has provided here this morning, that it would be devastating, and all the other pieces?

Mr. POWELL. Yes, I do. I think it is essential to raise the debt ceiling in time to avoid payment defaults of any kind. The potential effects could be severe.

Senator VAN HOLLEN. Right. And just to be very clear, isn't it the case, Secretary Yellen, that about 68 percent, excuse me, 28 percent of our total debt right now was incurred during the 4 years of the Trump administration.

Secretary YELLEN. I believe that is right. I think about $8 trillion. That is right.

Senator VAN HOLLEN. Right. And I suspect that almost every Republican Member of this Committee voted for the measures during those 4 years, including that big tax giveaway.

And I would just point out, I heard Senator Kennedy earlier this morning talk about how, you know, let Democrats do it alone. We would like our Republican colleagues to do the right thing, but we are willing to do it alone. In fact, Senator Schumer just announced that later today he will go to the floor of the Senate and say, "Just let the Democrats, with 50 votes, and the Vice President lift the debt ceiling." He is going to ask unanimous consent to do that. We could do that today. I have noticed Senator Kennedy is not here anymore, but that would get it done. And while we would like our Senate Republican colleagues to do the right thing for the country we are willing to do it alone if they just let us and get out of the way.

Thank you, Mr. Chairman.

Chairman BROWN. Thanks, Senator Van Hollen. Senator Daines from Montana is recognized.

Senator DAINES. Chairman Brown, thank you, and thank you, Secretary Yellen and Chairman Powell, for being here today.

I want to start by expressing my continued concern with the inflation we are seeing in the economy. Real wages are down. It results in inflation. I am deeply concerned that supply chain issues that we are seeing will not be quickly resolved. Add to that the reckless $3.5 trillion tax and spending spree. Let's be clear. It is the largest tax increase in 50 years. It is the largest spending bill in the Nation's history. You have to have superlatives if you start talking about what is being proposed right now in Washington.

I fear inflation will persist, and the reduction in wages that workers are seeing as a result might indeed accelerate. This package would affect and kill hundreds of thousands of jobs, hurt economic growth in my home State of Montana, as well as across the country.

Turning to my questions. Secretary Yellen, yesterday I sent a bipartisan letter with eight of my colleagues urging Treasury to ensure that water storage projects, like those on the, it is called the St. Mary's Milk River system, are eligible for water infrastructure, ARPA, funding. Would you commit to working with me and my team and some of the other senators on both sides of the aisle to ensure these critical water infrastructure needs would be addressed?

Secretary YELLEN. Certainly. I mean, I am not knowledgeable on the details——

Senator DAINES. I would not expect you to know the details of that, right.

Secretary YELLEN. ——but we will certainly work with you on that. Absolutely.

Senator DAINES. I want to raise your attention, so thank you, Secretary Yellen.

Secretary YELLEN. We will definitely do so.

Senator DAINES. Much appreciated.

Turning now to the topic of energy. Secretary Yellen, I would like to get your thoughts on what is happening in Europe right now. The U.K., in particular, is increasingly reliant on renewable power generation, and right now the wind simply is not blowing and they are not able to get enough natural gas to meet demand. This has led to massive spikes in the cost of power. In fact, power prices for next-day delivery in the U.K. are 10 times higher than the average price just 1 year ago.

In the U.S., we are very fortunate. We have moved from being a net importer of energy to now a net exporter. I think it is providing incredible competitive advantage for us, national security implications by reducing reliance on other countries for energy.

We are able to do this because the U.S. has a very diverse mix of energy production: national gas, hydro, coal, wind, solar, nuclear, many other sources. However, I am deeply concerned with the Biden administration's policies to curtail reliable base-load power that comes from coal, oil, gas, and would send us back to where we perhaps were back in the '70s, into where Europe seems to be headed today.

Secretary Yellen, could you help us understand and explain how the Biden administration's tax hikes and grand aim to really shut down fossil fuel production would not lead us to the same path of dependence on hostile adversaries, for example, Russia, where much of Europe now is faced with today?

Secretary YELLEN. Well, President Biden, and I feel the same way too, believe that climate change is an existential threat that absolutely must be addressed. And he has proposed a clean electricity plan that would, by 2035, shift entirely the electricity sector to reliance on renewables. And, of course, with renewables, as you pointed out in the case of the U.K., there is a question of what to do if the sun is not out and the wind does not blow. And I believe there are storage technologies that can be deployed and, you know, other means to address that, and of course that has to be part of a plan to switch to renewables and address climate change.

Senator DAINES. Yeah, and one of our concerns of course is, of course, the technical challenge here on intermittent sources of energy, as you described, and storage, but the impact this will have on families that are on fixed incomes, our seniors, our lower-income families are seeing these massive spikes in energy costs.

Secretary YELLEN. Well, that is certainly something we would want to avoid, and I do not believe that the President's program is going to lead to increases in the cost of energy for the typical family.

Senator DAINES. And I respect that point of view. And I am sure when the Europeans launched on this path, they were not planning to have order of magnitude increases in prices either, but it has been a consequence of the policies.

Chairman Powell, earlier this month in response to the revelations about securities trading by presidents of Fed regional banks, you began to review the ethics and transparency rules across the Fed because, and I quote, "The trust of the American people is essential for the Federal Reserve to effectively carry out our important mission."

The Fed Board of Governors is subject to FOIA and the Federal Records Act, but the Fed regional banks currently are not. Would you support making Fed regional banks subject to FOIA and the Federal Records Act to ensure greater public transparency and trust in the Fed?

Mr. POWELL. Senator, that is a good question. I would like the chance to think about it and come back to you. I would want to reflect on that and on the reasons why they are not subject to it, and I will do that.

Senator DAINES. I appreciate that, Chairman Powell. Mr. Chairman, I will wrap up here this statement. If there is something that concerns many of us it is the loss of trust to the American people in their Government, and here you have one more example. I appreciate your leadership, and thanks for consideration of that request.

Mr. POWELL. Thank you.

Chairman BROWN. The Senator from Georgia, Senator Ossoff, is recognized.

Senator OSSOFF. Thank you, Mr. Chairman, and thank you to our guests. Mr. Chairman, a question I have asked you in several consecutive hearings, the COVID–19 pandemic, of course, the most significant shock to the U.S. and global economy in the last 2 years. Beyond COVID, what do you assess are the most significant systemic risks or threats to financial stability in the U.S. and globally?

Mr. POWELL. When I think about systemic risks to the financial system I always think about cyber risks, really more than anything else. We have a very highly capitalized banking system, one that is much better at measuring its risks, so that more traditional—making bad loans, losing money, and things like that, that will happen, but the banks are really well fortified against that.

The risk that we have not really faced the full brunt of yet is a successful cyberattack on a financial institution of some kind, be it a financial market utility or a bank or another financial institution, and, you know, we work closely with Treasury and other agencies all around the country on that. You never have the feeling you are doing enough, but it is a very high priority to be ready for. But that would be the number one thing.

Senator OSSOFF. Madam Secretary, the same question for you, please. Other than the ongoing COVID–19 pandemic and the terrible economic toll that it is taking and the terrible health toll that it is taking, looking more broadly, what do you assess to be the most significant systemic risks or threats to financial stability?

Secretary YELLEN. I think there are threats to financial stability that have come from the growth of activity in the shadow banking sector. We saw some of those threats emerge during the onset of the pandemic. We have, for example, open-end bond funds that guarantee daily redemption, saw massive withdrawals by individuals who wanted to flee to cash, and that can trigger fire sales of assets with systemic consequences. The Financial Stability Oversight Council that I head has taken that up as a topic that we are looking at and examining.

There are issues relating to hedge funds and the possibility of leverage there that can trigger financial runs. That is another topic. And more broadly, climate change over time, I believe, could be a significant risk to the financial sector and the economy, and FSOC is also doing work on that to assess, evaluate, coordinate regulators, work with them to make sure they have the data that they need and that we develop the methodologies to examine that risk.

Senator OSSOFF. Thank you, Madam Secretary. Mr. Chairman, you noted in your testimony the impact of supply chain bottlenecks on prices. Can you give a sense to what extent you assess that difficulties in the shipping markets and import operations are driving those bottlenecks and contributing to high price levels in some sectors?

Mr. POWELL. It is certainly one of the major factors. We are told by our contacts that retailers, for example, that are trying to buy products for the holiday season cannot get the product. If they can get the product, they cannot get a container. They can get the container, they cannot get a ship. If they can get the ship, it is at anchor outside of the port of Los Angeles. So transportation is a big issue. Really, our supply chains have gotten all tangled up and blocked up. Big part of it.

Senator OSSOFF. Thank you, Mr. Chairman. And Mr. Chairman and Madam Secretary, as you know, Georgia hosts the Port of Savannah, which is the fastest-growing deep water port in the United States. It hosts the largest single container terminal in the United States. We have additional capacity at the Port of Savannah.

Broadly speaking, have you been in any meetings, principals' meetings, or National Economic Council meetings, or discussions at a high level about surging governmental resources and ingenuity to solve these shipping bottlenecks? When I reflect upon the capacity, for example, that our Department of Defense has to project power and mobilize resources and execute complex logistics around the world, I cannot help but wonder whether with a more hands-on and targeted approach we could resolve some of these issues at major U.S. ports and in the shipping industry.

Secretary YELLEN. The National Economic Council is looking closely at this issue. They have hired someone who has extensive experience with logistics and supply chains to take a very careful look and to see what we can do to try to untangle these supply chains.

Senator OSSOFF. Thank you. Any recommendations to Congress would be appreciated. And perhaps if there is some emergency legislative measure that would allow us to tackle this problem which is contributing to price and stability and price increases, let's follow up directly about opportunities to work together.

Secretary YELLEN. We would be happy to do that.

Senator OSSOFF. Thank you, Mr. Chairman. I yield.

Chairman BROWN. Thank you, Mr. Ossoff. Senator Tillis is recognized from his office, remote.

Senator TILLIS. Thank you, Mr. Chairman. Secretary Yellen, and Chair Powell, thank you for being here.

Chair Powell, the Administrative Procedure Act requires Federal agencies, including the Federal Reserve, to follow well-established rules when entering proposed and final regulations. I believe the Fed issues far too much guidance that is generally applicable to all banks, which should instead be subject to thoughtful and transparent notice and comment. I believe former board member, Tarullo, has suggested that that certain Federal actions are exempt from the APA, and I think specifically noting CCAR, the Comprehensive Capital and Analysis Review.

In my conversations with Vice Chair Quarles, he has made it abundantly clear that he believes that Fed does, in fact, have to abide by the APA in all circumstances. So, Chair Powell, who is right? Does Tarullo have a leg to stand on in terms of saying that the Fed is not subject to the APA in all circumstances, or is Vice Chair Quarles right, that you are?

Mr. POWELL. Senator Tillis, I will speak to you to this issue under the control of my general counsel who is here, but my understanding is that the APA does apply to the board and that we take care to observe its requirements. I know that our stress testing and capital plan rules were promulgated in compliance with the APA.

Senator TILLIS. So I guess with legal counsel in the room, I have got a half answer.

Mr. POWELL. Well, I have given you what I know. I would be happy to follow up with you.

Senator TILLIS. Yeah, I feel very strongly about it. We will come back to that.

I did want to ask you another question, Chair Powell. In minutes from the FOMC conference call on October 13th, you advocated for—oh, I am sorry, October 2013—you advocated for not disclosing contingency plans you had made for a potential breach of the debt ceiling, saying it would, and I quote from the minutes, "make it less likely that the Congress will feel enough pressure to actually raise the ceiling," end quote.

Do you think it is the role of the Federal Reserve to decide to withhold such information, and if you do believe that, in what other instances have you deemed it not important enough to not influence congressional outcomes?

Mr. POWELL. Actually, if you look at that transcript, what I said was, and what I meant was, the things that we will do that are within our power to do I think are very well understood by market participants. There was a long list of things discussed at that meeting, and as you get down the list these were things that we really would not like to do and probably would not do, but, you know, really, in a national emergency we would have to think about doing.

So I was talking about those sorts of things, and I thought putting those out there and having people believe that we would do these things was really not a good idea, and that it might create a misunderstanding on the part of the public that we actually could shield the financial markets and the economy and the American people from a default on the debt ceiling, on our debt, and that is not the case.

Senator TILLIS. Secretary Yellen and Chair Powell, I know you both made comments endorsing the Federal legislative solution to provide a replacement framework for outstanding financial contracts tied to LIBOR. I agree completely, and I was pleased to see the legislation clear the House Financial Services Committee last week on a strong bipartisan basis. I just want to let you know that we understand that bipartisan action is needed in the Senate to affect a smooth transition and to provide certainty to capital markets, and I look forward to working with my colleagues, first among them Senator Tester, to make sure that Congress does act and provide for a smooth transition.

Thank you, Mr. Chairman. I yield back.

Senator TOOMEY [presiding]. Thank you, Senator Tillis. Senator Cortez Masto.

Senator CORTEZ MASTO. Thank you. Thank you both for being here. It has been, at times, a loud, exciting hearing this morning and I appreciate your patience and you are still there willing to ask questions, and I think it says a lot about both of you.

But let me just put something, because at the end of the day, at least for the people in my State, it is about the truth and the facts and people working together and what is happening in this country during this pandemic.

So let me just verify, because Congress passed the CARES Act, the American Rescue Plan, and an appropriations bill with significant resources for health care, for housing, and support for local governments, and they did this because we were in the middle of a worldwide health pandemic due to COVID–19. Isn't that correct? Yes for both of you? Both shaking your heads yes?

Mr. POWELL. Yes.

Senator CORTEZ MASTO. Yes. So how important were those investments to avoid a deep and painful recession? Were they important to avoid that recession? Is that——

Secretary YELLEN. Absolutely.

Mr. POWELL. Utterly essential.

Senator CORTEZ MASTO. OK. And I appreciate that because at the end of the day there is bipartisan work to address this pandemic and it was needed at that time. The work that we are doing to increase the debt limit has a lot to do with that debt that was incurred back then to address the pandemic. Isn't that right, Secretary Yellen?

Secretary YELLEN. That is true. Raising the debt limit allows us to pay bills that were incurred because of those acts and others of Congress.

Senator CORTEZ MASTO. So just so I can clarify, so my colleagues who are refusing to come to the table to address this, they are getting the benefit of that relief in their States, however. Correct?

Secretary YELLEN. Yes, of course.

Senator CORTEZ MASTO. All right. Just to clarify that. Now, I do know though, coming from Nevada, and Chairman Powell, you and I have had this conversation, Secretary Yellen, you as well, there is still an industry that was so hard hit that it is still trying to recover from this pandemic, which is that hospitality, that travel and tourism industry. Isn't that correct?

Secretary YELLEN. It is still deeply depressed, and has not come back to normal yet.

Senator CORTEZ MASTO. That is right. So Chairman Powell, can I ask you your thoughts on what we should continue to do to address to help the recovery? Because I know at least in Nevada, which the main revenue generated for our State is this hospitality, travel, and tourism, that leisure traveler has been there, but the business traveler is not back, the international traveler is not back. Are you anticipating what can be done by the Federal Reserve to address this—and Secretary Yellen, I will ask you the same thing—by the Administration, or what should we be doing as Congress? Have we done enough for this industry or does more need to be done to help bring it back because of this pandemic?

Mr. POWELL. In my view, the most important thing is to get control of the pandemic. That is what is keeping people out of sporting arenas and off of airplanes and out of restaurants and bars. And we saw that very clearly in the August payroll report where job creation in these industries had gone from very strong for several months to zero in August. So it is really all about, at this point, getting the Delta variant and really frankly getting vaccination and immunity up higher which is not something we can do.

Senator CORTEZ MASTO. Thank you. Secretary.

Secretary YELLEN. And I would agree with that answer, and it is something we are working as hard as we possibly can to do, to get vaccination rates up, to deal with the pandemic.

Senator CORTEZ MASTO. Thank you. And let me talk about something that is also impacting my State, and I think many, which is the disruption in the supply chain. Senator Ossoff was talking to you about it, Secretary Yellen, and you talked about the National Council, if I remember correctly.

Secretary YELLEN. National Economic Council.

Senator CORTEZ MASTO. Yes. Is there a timeframe when they anticipate coming back with some kind of concrete answers to how to address this disruption in the supply chain?

Secretary YELLEN. I can get information for you on that. I know they are bringing together business leaders who were in affected industries with experts to see if things can be worked out.

Senator CORTEZ MASTO. Thank you. I appreciate that. I am going to yield the remainder of my time. I will submit the rest of my questions for the record, but thank you both for being here.

Mr. POWELL. Thank you.

Secretary YELLEN. Thank you, Senator.

Senator TOOMEY. Senator Hagerty.

Senator HAGERTY. Thank you, Ranking Member Toomey, and thanks to the Members of the Committee for holding this hearing. I want to thank Chairman Powell and Secretary Yellen for being here today.

Chair Powell, I would just like to also acknowledge you. You and I have talked extensively about my concerns about the inflation and the economy. We spoke about this in February and we spoke about it in depth during our hearing in July. I am very pleased to see the Fed beginning to lay the groundwork now to address inflation in our economy, and for that, I want to thank you.

Secretary Yellen, I would like to turn my attention to you, and if we might speak about the $3.5 trillion transformation of the U.S. economy that is being proposed right now, that we are going to be expected to vote upon very soon. Last week, you, Leader Schumer, Speaker Pelosi stood before the American public and said you had agreed to framework, a framework to pay for this. Could you tell us what is in this framework?

Secretary YELLEN. Well, it was essentially a list of ideas where there is support from the House, the Senate, and the White House for how revenue could be raised that would be sufficient to cover the expansive programs under consideration. And as we have articulated, this involves increases in the corporate tax rate, a reform of international provisions that will reduce the incentives we currently have in the tax code to export jobs and export profits to low-taxed areas, and to export jobs abroad and raise revenue, and additional revenue raised from high-tax, high-income individuals, well above $400,000, for example, by raising back the highest income tax rate to where it was before 2017, and will go in 2026, under current law to increase the tax rate on capital gains, and importantly to improve tax compliance. We have a huge tax gap that is estimated at $7 trillion——

Senator HAGERTY. I will come to the compliance issue in just a moment. I would, though, very much like to see this framework that you agreed to. We are going to be expected to vote on the most massive transformation of the U.S. economy that this Nation has ever seen. $3.5 trillion is a huge amount of money in pay-fors. And the industries and the individuals and how they are going to be targeted is something that I would very much like to get a copy of before I am expected to vote on this. I am certain that my——

Secretary YELLEN. I am sure.

Senator HAGERTY. ——fellow Committee Members would like to see this. Is this something that you could get to me and my team by the close of business today, Secretary?

Secretary YELLEN. No, it is not. There are currently discussions and negotiations taking place within the House and the Senate with involvement in the White House to try to decide what a final package will look like. And until that is decided, you know, you can see that things coming out of House Ways and Means, for example, but this is very much in the process of being decided.

Senator HAGERTY. This is very, very disturbing when we are talking about something of this magnitude and you are telling me that I cannot see the framework, that the Members of this Committee cannot see the framework. I guess we are just supposed to trust the Administration.

Secretary YELLEN. Well you can look at our proposals that the President put out in conjunction with his Build Back Better plan.

Senator HAGERTY. These are just platitudes. I am talking about the specifics of the program.

Secretary YELLEN. Well the Treasury's green book had specifics of our proposals and House Ways and Means marked up a bill pertaining to revenue that you can look at the specifics.

Senator HAGERTY. I will look forward to you working with my staff so we can have a detailed understanding, because the last thing I want to do is find ourselves yet again in a situation where we have got to pass a bill to find out what is in it. And, in fact, we need to have a very clear understanding of this sort of transformation because the credibility of this Administration has been seriously challenged. If you look at the disaster that is taking place in Afghanistan, if you look at the disaster at our southern border, the inflation that is running rampant in our economy, I am very concerned and I want to have a much clearer picture of what the intended pay-for will be and the impact on the economy. So I appreciate your team working with mine so we can get as much information as possible on this. Thank you.

I would like to turn to another specific area, much more specific indeed. You spoke about this with Senator Lummis. That has to do with the new requirement that our banking system now report transactions that exceed $600. That is going to be an impact on community banks, on farm credit lenders. It will be an extensive compliance burden.

But there is a greater concern that I have, and that is the concern that my constituents have raised with me and that the American public has in the ability to keep this information confidential. And after we have seen what happened when the IRS disclosed the private confidential tax information of its political enemies during this Administration to ProPublica, there is a huge concern and a deserved concern on the part of the American public that this information, that the detail that we are talking about it a detail level that I would expect from the Chinese Communist Party, not here in America. But the detail will be protected.

Can you tell me what you are going to do to make certain that this taxpayer confidential information will be protected?

Secretary YELLEN. Protecting taxpayer information is the highest priority of the Internal Revenue Service. The ProPublica information represented an illegal revelation of taxpayer information. It is an illegal act and it is being investigated thoroughly by independent entities, law enforcement, and the inspector generals of Treasury and the IRS, and there really cannot be tolerance for that. We are proposing to invest in the IRS so that they can modernize their systems and put in place better controls that will protect taxpayer information.

Just to be clear, we do not know that the ProPublica information came from the IRS. That has not been established. And we are talking about a small amount of information, not every transaction that is less than $600. Banks already report to the IRS on Form 1099–R——

Senator HAGERTY. I am aware of that.

Secretary YELLEN. ——the amount of interest, and we are just asking for two additional pieces of information, aggregate inflows and aggregate outflows from the account during the year.

Senator HAGERTY. Again, far more detail about it, Americans' private transactions. And again, I will say I appreciate the fact that you are looking for accountability within the IRS. We have seen a great lack of accountability in this Administration. Just look at what is happened in Afghanistan, zero accountability. Look at what is happened at out border, zero accountability. The American public is concerned and I very much appreciate the efforts that you are taking and I hope that you get to the bottom of this so it never happens again.

Thank you, Madame Secretary.

Chairman BROWN [presiding]. Senator Warnock from Georgia is recognized.

Senator WARNOCK. Thank you so very much. Thank you so much, Mr. Chairman, and thank you, Chairman Powell and Secretary Yellen, for being here.

Yesterday, it was reported that the Regional Federal Reserve Bank 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. Throughout the COVID–19 pandemic, many experts have underscored the importance of maintaining the independence of the Central Bank. Independence, of course, is necessary before the pandemic, after the pandemic, during the pandemic.

Even though neither serves now as voting members of the Federal Open Market Committee, this is a blow to the image of the Central Bank serving as an impartial and independent agency charged with maintaining stability in pricing and employment. Chairman Powell, what immediate actions have you taken to ensure the impartiality of the Fed, and what systems already that are in place failed here and how do you plan to fix them going forward?

Mr. POWELL. Our need to sustain the public's trust is the essence of our work. We want the public to understand that we work for all Americans. So we do not like to be having these concerns raised. It is really something that is very, very concerning. So as soon as I learned of it, I directed our staff to undertake a review of our practices.

We have had in place a set of practices around investments and trading and disclosure that seems to have worked for a long time, only it is clearly really not working now and we understand now that we need to raise modifier practices and we are in the process of creating ideas and recommendations for that. That is one thing that we are doing. We are also looking carefully at the trading that was done to make sure that it is in compliance with our rules and with the law.

Senator WARNOCK. The rules seem to have broken down. Do you think there needs to be any changes in the trade?

Mr. POWELL. Yes. I am 100 percent sure there is a need for those and there will be. I do not know precisely what they will be, but the appearance is just obviously unacceptable. Even if, as appears to be the case, these trades were in compliance with the existing rules, that just tells you the problem is that the rules and the practices and the disclosure needs to be improved and that is what we are working on. We will rise to this moment and address this forthrightly.

Senator WARNOCK. I agree. Confidence in the Central Bank is essential, and I look forward to working with you on this issue and also working with Chairman Brown, who is working on legislation.

Let me change topics. I am a strong advocate for working and middle-class families and we successfully pushed to include an expansion of the vital Child Tax Credit program in the American Rescue Plan. I think it is really important as some folks are talking about this $3.5 trillion package that what we are talking about here with the Child Tax Credit is a tax cut, and that does not get said often enough. I think it has something perhaps to do with the kind of attitude about working people, ordinary people, poor people. It is a tax cut.

Experts say that this tax cut would cut child poverty in half nationwide, and 97 percent of families with children qualify. So this is about lifting the burdens of our neighbors. If made permanent, this tax cut for families would push poverty in a typical year down below 10 percent in 47 States, including Georgia.

Secretary Yellen, should Congress make this program permanent and if so, what kind of long-term benefits will this have for our Nation's economy and families?

Secretary YELLEN. Well we certainly would like to find a way to make it permanent. It is a very important support for children and their families. We saw just after one payment that the share of families reporting that there was not enough to eat in the household dropped by 24 percent, and it is clear that families are spending this on their children for clothing, for food.

And, you know, the security that our children have whether they grow up insecure, in families that do not have enough to provide for them, make all the difference to their success in life. So this program that will provide a steady source of income, along with other supports in the sort of Build Back Better agenda, including 2 years of preschool, childcare support, I think these are critical investments to make sure that families with children can support them and they can succeed in their lives.

Senator WARNOCK. You said they use the money to buy things like food, I believe you said——

Secretary YELLEN. Yes.

Senator WARNOCK. ——clothing. What, in your estimation, is the impact of that on the economy, on a consumer economy? Does that help or hurt?

Secretary YELLEN. Well of course it is positive. It supports spending in the economy that creates jobs in the process.

Senator WARNOCK. And what would be the impact of adding mandatory work requirements if we extend this and made it permanent?

Secretary YELLEN. Well we would not be in favor of mandatory work requirements. The truth is that the vast majority, over 90 percent of families that require this assistance are working, have workers, and you have, in addition, grandparents, for example, who are no longer in the workforce or people who are disabled, may not be working and cannot work, who are also getting support that they need to take care of children.

Chairman BROWN. Thank you, Senator Warnock.

Senator WARNOCK. Thank you.

Chairman BROWN. The Senator from North Dakota, Mr. Cramer, is recognized.

Senator CRAMER. Thank you, Chairman Brown. Thank you, Senator Toomey. Thanks to both of you for being here and I cannot resist. For some reason, I am just not surprised, Madame Secretary, that working for money is something that your Administration is against. I mean part of the reason we have this no longer transitory inflation, Mr. Chairman, is because we keep giving money away like it grows on trees and we increase the demand for products while diminishing the supply.

I want to get to another point, related however, Secretary. You made addressing climate change a high priority in your term. It is a central point of your term. You and John Kerry, the President's climate czar, have encouraged banks and investment institutions to form this net zero banking alliance. By the way, net zero, Mr. Chairman, what that means is we are going to transfer our climate guilt to other people who do not have a climate conscience. I would rather set a goal, a global goal, and hold the real polluters accountable rather than reducing our economy and putting us at a disadvantage.

But anyway, the President has urged banks to provide as much support for alternative energy projects as possible, which, of course, presumes at the expense of current energy projects. And that could obviously force financial institutions to put political and social agendas ahead of their investors and ahead of their banks, ahead of the American economy. And that is why I have been such a harsh critic of these very arbitrary ESG statements put out by banks.

But in light of this weak unemployment and recovery numbers, the fact that this inflation, that I never believed it was transitory, clearly is not any longer, do you think it is really a good idea for private businesses to be forced by a Government official to make decisions about where they should or should not put their money, jeopardizing jobs, jobs in our energy sector? Because guess what is up? The price of gasoline, the price of oil, the price of electricity is skyrocketing. And there is no worse tax.

Mr. Warnock wants to call Child Tax Credit a tax cut, and he complains that we do not say that often enough. We do not say it because it is not a tax cut. It is a subsidy. It is a subsidy. Now, you can argue whether it is a good subsidy or a bad subsidy, but calling it a tax cut is not fair. What we are doing is driving the price of all of these fuel sources up, transferring our climate guilt, and then hamstringing our own financial institutions with these arbitrary rules.

So in light of what is going on with unemployment, now I know you want to just tax people a whole bunch more and pay people not to work so maybe unemployment is not a problem, but is it? Couldn't we please rethink this strategy, Madame Secretary?

Secretary YELLEN. Well look, climate change is an existential threat and it is a very high priority of President Biden's and of mine to address it, but no one is forcing banks or other financial institutions to make investments that they do not think are profitable and desirable. There is enormous interest in the financial community in making investments that will be profitable in sustainable investments.

And what we want to do, and we are working through FSOC to do this, is to make sure that investors have the kind of information that will enable them to make investment decisions that they want to make that are profitable. And——

Senator CRAMER. So you do not think they are capable of getting their own information at risk and opportunity so you have to have a czar and a secretary and other czars give them information that might be helpful to their decision—all the while, by the way, Russia, Venezuela, Saudi Arabia, they get the benefit of all of this. I mean when our President has to call on OPEC+ to help bring the price of gasoline down by increasing production, all the while we shut off our own, whether by fiat or by innuendo, that does not seem like a great strategy to me. I think you are wrong.

I will yield back. Thank you, Mr. Chairman.

Chairman BROWN. Thanks, Senator Cramer. As we close, Senator Toomey has some remarks and then I will make a closing statement.

Senator TOOMEY. Thank you, Mr. Chairman. I just feel compelled to go back one more time and touch on this issue of the debt ceiling. I have to confess I have been shocked to hear our Treasury Secretary and some of my colleagues tell us today that raising the debt ceiling and additional borrowing that that permits is 100 percent about covering spending that was committed to in the past, as thought the spending that has not yet occurred this year somehow is not going to cause a deficit, somehow that spending will not require borrowing? The spending that has not yet occurred but is going to occur absolutely is going to increase the amount that we are going to have to borrow. And when we go on an unprecedented, blowout spending spree, it is going to increase spending by that much more.

I mean just think about it. Imagine that this $3.5 trillion spending bill, let's imagine Senator Sanders had his way and it was $6 trillion. Do we seriously think that would have no impact on the amount of money our Government would have to borrow? How ridiculous. Of course it does.

And so the truth of the matter is our Democratic colleagues do not want the American people to associate this huge spending binge they have been on and want to continue on with the debt that will be required in part to pay for it, and we are not in favor of either one. And that is why, Mr. Chairman, I think you are going to need to use the procedures readily available to you to raise the debt ceiling just as you intend to pursue all this spending, which is with a simple majority vote.

Chairman BROWN. Thank you, Senator Toomey. Of course, we all know that 3 years ago, 45 Democrats joined a number of Republicans with a Republican President, a Republican Senate, a Republican House to pay our debts. We believed it was our patriotic duty. We all took an oath of office swearing to the obeisance thereof of what we believed and American values and we paid our debts. We did it then in a bipartisan overwhelming vote and we should do it, and we know that Senator McConnell does not seem to think that.

Let me get one thing straight though about what we have talked about. The infrastructure we have had, investments we passed in a bipartisan bill we are working on now are fully paid for. It is simple. Instead of American taxpayers racking up debt due to corporate handouts and tax cuts for wealthy CEOs, those corporations, those billionaires for the first time are finally going to help us pay for the investment we need in our greatest asset, the American people. It is not just nurses and teachers and firefighters that are paying their taxes. It is time that the wealthiest people in this country paid their fair share.

Corporate greed is a big reason why we need this investment in the first place. For decades, we had a corporate business model, I mentioned that in my opening statement, where they plow all their cash into stock buybacks and bonuses and other schemes where the money ends up in their pockets instead of funding the real economy.

The economy of a year ago may have looked pretty good from a corporate boardroom or may have looked pretty good from the Dirksen Office Building, but anyone who got, as Lincoln would say, their public opinion baths would know that so many workers, entire neighborhoods, entire towns were not seeing the gains, those stock market gains, translate into opportunity for them and their family.

We are changing that. One of the best things about our economy today is for the first time in decades, the first time in some people's memory, workers are starting to gain a little power in our economy, over their schedules, over their wages, over their benefits. They are going to gain a whole lot more power when we invest in jobs in their towns and childcare and housing and the Child Tax Credit and education and workplace protections, and everything workers need to feel stable and think, just so they know, finally in this country, they are getting a fair shake.

I thank Secretary Yellen for joining us, thank Chairman Powell for joining us. The meeting is adjourned.

[Whereupon, at 12:30 p.m., the hearing was adjourned.]

[Prepared statements and responses to written questions supplied for the record follow:]

PREPARED STATEMENT OF CHAIRMAN SHERROD BROWN

We all remember the dark days of 2008, and the painful years that followed. Secretary Yellen and Chair Powell, you both helped us deal with the aftermath in your roles at the Federal Reserve.

When the biggest banks were in trouble, Washington sprung to action—"we have no choice, we can't allow these banks to fail," everyone said.

But millions of families were allowed to fail.

American workers bailed out the financial industry, but their livelihoods were not treated with the same urgency. Recovering their jobs—let alone empowering them to demand better ones—would have to wait for years.

By the end of 2013, the stock market had its best year in almost two decades, while nearly 11 million people were still out of a job.

The question before us today is the same question we've been grappling with for a year: are we going to learn from our past mistakes?

Americans do not have to settle for another Wall Street-first recovery. We have the tools to do things differently—the only question is whether we're going to use them, for as long as it takes.

So far, we have worked to learn the lessons of the past, and do better by American workers. That's what the CARES Act and the American Rescue Plan were all about.

We put money in families' pockets—stimulus checks and the Earned Income and the Child Tax Credit were spent in local supermarkets and shopping centers on food and back-to-school supplies.

Treasury helped State and local governments get emergency rental assistance to 420,000 families in August alone and provided $950 million to help homeowners who are behind on their mortgage.

The result has been record job growth—job creation in the first 7 months of the Biden administration is nearly double any previous first-year President.

It's not just the jobs numbers—it's also the quality of those jobs.

For the first time in decades, workers are starting to gain a little power in our economy—power to negotiate higher wages, better working conditions, and more control over their schedules and their futures.

Progress, to be sure. Yet we have a long way to go.

We are still down 5.6 million jobs since before the pandemic.

Corporations are using the pandemic as an excuse to "cut costs"—and we know that by "costs" they always mean jobs or wages or retirement contributions, never CEO bonuses or stock buybacks.

Instead of hiring back loyal workers as business expands, companies are outsourcing or contracting out the work, and paying people half as much.

The Fed, for its part, has taken extraordinary action over the past year-and-a-half to stabilize our economy.

But many of the Fed's efforts helped stabilize markets much more than they stabilized working families.

Those actions have been a bonanza for Wall Street. Big corporate mergers are at an all-time high, and the biggest banks have had one of their most profitable years ever—during a global pandemic.

The same companies that benefited from the Fed's actions want to "restructure" their workforce, and complain about a "skills gap," while refusing to cut into their stock buyback budgets to expand training programs or offer truly high wages.

This ought to be a reminder that we're still in the very early stages of recovery—and that the same old Wall Street system is not good enough.

Chair Powell, you have talked about your commitment to competitive labor markets, yet you have said that the test for full employment is "all but met."

Tell that to the working mother who was forced to quit her job because she couldn't afford childcare, or even find childcare.

Tell that to the server who worked for decades at a major hotel chain, only to lose her job during the pandemic, and then be offered the same job by a contractor paying half the wages with no benefits.

Tell that to a worker in my hometown in Mansfield, who for decades has watched companies close down factories and move good-paying, union jobs abroad—only to have them replaced, when they were replaced at all, by low-wage, non-union jobs at a Big Box store.

Now is not the time to declare victory.

Americans have watched this story unfold over and over again.

Crash. Recession. Rapid Wall Street recovery. Years of slow, painful, uneven job recovery.

And always within the same corporate system that treats quarterly stock prices as the only measurement that matters, and treats workers as a cost to be minimized.

How many times are we going to continue to do this?

How many times are Americans going to have to watch history repeat itself?

We cannot declare the recovery complete until all workers can find a job that pays them fair wages and treats them with dignity.

The Fed cannot pull back every time workers gain a tiny bit of power to demand higher wages.

The Fed cannot continue to rubberstamp mergers and allow corporate consolidation to go unchecked, and then wonder why job growth isn't reaching whole regions of the country.

Full employment means a truly competitive labor market—one where everyone can get a job, and employers compete for workers.

We have not seen that kind of labor market in decades—but we can. That is our job—in Congress, at Treasury, at the Fed.

I also need to say a quick word about the games Republicans are playing with people's livelihoods.

The debt limit is not about future spending—it's about meeting obligations we've already made, like the bipartisan, overwhelmingly popular CARES Act—the reason we're holding this hearing today.

Every single one of my Republican colleagues who served on this Committee last year voted for the CARES Act. Every single one of them voted for the $2 trillion tax cut for their wealthy friends. They didn't seem to have a problem with the debt limit then.

But now they don't want to pay the bill.

The partisan game is pretty transparent.

We need to pay our bills on time. And we've always done it together. Treasury Secretaries—past and present, and across the political spectrum—are sounding the alarm about the economic devastation they're threatening.

And China is watching with glee, all too eager to see the dollar tarnished as the world's reserve currency.

We can't play politics with the full faith and credit of the United States.

Finally, Chair Powell, I understand you've initiated a review of the ethics and financial disclosure rules at the Fed after we learned of stock trades that two Federal Reserve Bank Presidents made during the pandemic.

I have a bill with Senators Merkley and Warnock—the Ban Conflicted Trading Act—that would ban members of Congress from buying or selling any individual stocks. I think the same should apply to Fed officials and I'm introducing a bill to do that.

Your job, the Fed's job, members of Congress' job is to serve the public, not their stock portfolios.

PREPARED STATEMENT OF SENATOR PATRICK J. TOOMEY

Thank you, Mr. Chairman. Secretary Yellen and Chair Powell, welcome.

Last year, Congress, on bipartisan basis, forcefully responded to the threat of economic collapse caused by the pandemic and resulting lockdowns. That response, together with the Fed's aggressive monetary policy support and the end to lockdowns, enabled the U.S. economy to fully recover. Our economy today is not only larger than it was before the pandemic, but we're now running above prepandemic GDP forecasts for 2021.

Unfortunately, Democrats are trying to ram through a reckless tax and spending bill that will threaten economic growth. Policies include massively expanding the welfare State, raising taxes on U.S. employers, and diminishing investment by increasing taxes on capital gains.

Let's be clear about the purpose behind these proposals: It's not to spur economic recovery—the economy is strong. Nor is it an antipoverty plan—the programs are not limited to the poor. It's to reconfigure the relationship between the Federal Government and the middle class. It's about socializing many ordinary responsibilities that families have always assumed.

Instead of raising taxes to partially fund economically harmful programs, we should work to return to the best economy of my lifetime, which we experienced before COVID hit. We had the lowest unemployment rate in 50 years—including record low unemployment rates for Black and Hispanic Americans—real median household income at an all-time high, and strong wage growth, above the rate of inflation, particularly for lowest income earners.

This was achieved by reforming the tax code, lowering tax rates, and lightening regulatory burdens. Now the Democrats are proposing to reverse all of these policies.

Chair Powell, as you know, the Fed has clear and narrow mandates: To conduct monetary policy that promotes stable prices, maximum employment, and moderate long-term interest rates, and to conduct banking supervision and maintain an efficient payment system.

As Chair Powell has articulated, these are "narrow but important" responsibilities. It's therefore concerning to see the Fed, especially its regional banks, wade into politically charged areas like global warming and racial justice. These efforts undermine the Fed's independence and distract from the Fed's actual responsibilities like controlling inflation.

Speaking of which, the Fed's excessively accommodative monetary policy, emergency policies long after the emergency has passed, produced the inflation I have feared, and the Fed did not expect. We're now seeing rates of inflation considerably higher than the Fed projected. And it is hurting businesses, consumers, and workers.

You don't have to take my word for it. Here's what the CFO of Costco said last week: "Inflationary factors abound: higher labor costs, higher freight costs, higher transportation demand, along with container shortages and port delays, increased demand in certain product categories, various shortages of everything from computer chips to oils and chemicals."

To address this threat, I urge the Fed to accelerate the process of normalizing monetary policy so that it does not fall further behind the curve in responding to inflation than it already has.

I'm also concerned Treasury may be headed down a similar path of exceeding its authority. To much fanfare, the Biden administration has announced an international tax agreement that consists of two pillars.

Pillar one is an unprecedented change that would allow foreign countries to tax American companies based on their sales overseas. It's a tax revenue transfer from us to them. Unsurprisingly, this is the priority for other countries, who have long sought this tax transfer.

Pillar two is a global minimum tax on multinationals' foreign income. This is the Biden administration's attempt to justify burdensome tax increases on U.S. companies. Unsurprisingly, this is the Administration's priority and is part of its efforts to dismantle our successful 2017 tax reforms.

The Administration is imploring other countries to implement a global minimum tax that will harm their own workers and businesses. By doing so, the Administration has implicitly acknowledged that their proposed multinational tax increases will make U.S. workers and businesses less competitive, if other countries either don't implement a global minimum tax of their own, or implement a significantly lower rate than what the Administration is proposing.

But there's a real possibility that other countries will not implement a global minimum tax for at least two reasons. First, the EU can only implement this global minimum tax by unanimous consent, which they don't have. Second, these countries have only reluctantly agreed to pillar two in return for pillar one, which is the transfer of U.S. tax revenue to them. But implementing pillar one in the U.S. requires a treaty ratified by two-thirds of the Senate—and that's not going to happen.

The Administration has implicitly admitted that their global tax hike will be a disaster for the U.S. if the rest of the world does not follow suit. There's a very substantial risk that the rest of the world will not follow suit. And yet Democrats are charging ahead with this destructive tax increase in their reconciliation bill that they're going to try to pass any day now.

Secretary Yellen and Chair Powell, I look forward to discussing these and other issues with you today.

PREPARED STATEMENT OF JANET L. YELLEN

SECRETARY, DEPARTMENT OF THE TREASURY

SEPTEMBER 28, 2021

Chairman Brown, Ranking Member Toomey, Members of the Committee: It's a pleasure to testify today. We are in the midst of a fragile but rapid recovery from the pandemic-induced recession. While our economy continues to expand and recapture a substantial share of the jobs lost during 2020, significant challenges from the Delta variant continue to suppress the speed of the recovery and present substantial barriers to a vibrant economy. Still, I remain optimistic about the medium-term trajectory of our economy, and I expect we will return to full employment next year.

A rebound like this was never a foregone conclusion. In fact, the American recovery is stronger than those of other wealthy Nations. One key factor for our overperformance is the policy choices that Congress has made over the past 18 months. Those choices include the passage of the CARES Act, the Consolidated Appropriations Act, and the American Rescue Plan.

Treasury, as you know, was tasked with administering a large portion of the relief dollars in those bills, and when we last met, our Department was busy standing up programs to help individual families, State governments, and organizations of every size in between. While we still have much more work to do, we have made significant progress, and I wanted to give you an update.

Let's start with families. In July, our Department started sending the monthly expanded Child Tax Credit payments to the families of nearly 60 million children across the country. To date, $46 billion dollars in payments have been made, and we're already seeing the impact. Analysis by the Census Bureau found that after the first payments in July, food insecurity among families with children dropped 24 percent.

As for State, local, tribal, and territory governments, COVID–19 decimated their budgets. There were mass layoffs, and to end the health and economic emergencies, we knew that communities would need funding to hire educators to bring kids back to school, for example, or frontline workers to administer the vaccine. The American Rescue Plan included $350 billion to that end, and those dollars are indeed helping the machinery of local governments get up-and-running. States and localities can rely on relief money that is available instead of resorting to painful budget cuts.

Congress rightly designed the State and local program with flexibility in mind. I think many of us knew the recovery could run up against some unforeseen challenges, and we wanted communities to be able to devote resources where and when they saw fit. I want to note that this flexibility is paying off now, especially with the spread of the Delta variant. Harris County, Texas, for instance, has used this funding to boost its immunization rate, offering $100 to each person who gets their first vaccine dose.

For the relief dollars not yet out the door, Treasury is doing everything it can to expedite their delivery. The Emergency Rental Assistance Program is 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.

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 our 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 distribution of rental assistance funds.

I'll end my remarks there except to reiterate what I've communicated many times these past several weeks: It is imperative that Congress swiftly addresses the debt limit. If it does not, America would default for the first time in history. The full faith and credit of the United States would be impaired, and our country would likely face a financial crisis and economic recession.

We must address this issue to honor commitments made by this and prior Congresses, including those made to address the health and economic impact of the pandemic. It's necessary to avert a catastrophic event for our economy.

Senators, the debt ceiling has been raised or suspended 78 times since 1960, almost always on a bipartisan basis. My hope is that we can work together to do so again—and to build a stronger American economy for future generations. Thank you, and I'm pleased to take your questions.

PREPARED STATEMENT OF JEROME H. POWELL

CHAIRMAN, BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

SEPTEMBER 28, 2021

Chairman Brown, Ranking Member Toomey, and other Members of the Committee, thank you for the opportunity to discuss the measures we have taken to address the hardship wrought by the pandemic. Our health care professionals continue to deliver our most important response, and we remain grateful for their service. Progress on vaccinations and unprecedented fiscal policy actions are also providing strong support to the recovery.

Since we last met, the economy has continued to strengthen. Real gross domestic product rose at a robust pace in the first half of the year, and growth is widely expected to continue at a strong pace in the second half. The sectors most adversely affected by the pandemic have improved in recent months, but the rise in COVID–19 cases has slowed their recovery.

Household spending rose at an especially rapid pace over the first half of the year but flattened out in July and August as spending softened in COVID-sensitive sectors. Additionally, in some industries, near-term supply constraints are restraining activity.

As with overall economic activity, conditions in the labor market have continued to improve. Demand for labor is very strong, and job gains averaged 750,000 per month over the past 3 months. In August, however, gains slowed markedly, with the slowdown concentrated in sectors most sensitive to the pandemic. The unemployment rate was 5.2 percent in August, and this figure understates the shortfall in employment, particularly as participation in the labor market has not moved up from the low rates that have prevailed for most of the past year.

Factors related to the pandemic, such as caregiving needs and ongoing fears of the virus, appear to be weighing on employment growth. These factors should diminish with progress on containing the virus.

The economic downturn has not fallen equally on all Americans, and those least able to shoulder the burden have been the hardest hit. In particular, despite progress, joblessness continues to fall disproportionately on lower-wage workers in the service sector and on African Americans and Hispanics.

Inflation is elevated and will likely remain so in coming months before moderating. As the economy continues to reopen and spending rebounds, we are seeing upward pressure on prices, particularly due to supply bottlenecks in some sectors. These effects have been larger and longer lasting than anticipated, but they will abate, and as they do, inflation is expected to drop back toward our longer-run 2 percent goal.

The process of reopening the economy is unprecedented, as was the shutdown. As reopening continues, bottlenecks, hiring difficulties, and other constraints could again prove to be greater and more enduring than anticipated, posing upside risks to inflation. If sustained higher inflation were to become a serious concern, we would certainly respond and use our tools to ensure that inflation runs at levels that are consistent with our goal.

The path of the economy continues to depend on the course of the virus, and risks to the outlook remain. The Delta variant has led to a surge in cases, causing significant human suffering and slowing the economic recovery. Continued progress on vaccinations would help support a return to more normal economic conditions.

The Fed's policy actions are guided by our dual mandate to promote maximum employment and stable prices for the American people, along with our responsibilities to promote the stability of the financial system. In response to the crisis, we took broad and forceful measures to support the flow of credit in the economy and to promote the stability of the financial system at the onset of the pandemic. Our actions, taken together, helped unlock more than $2 trillion of funding to support businesses large and small, nonprofits, and State and local governments between April and December of 2020. This, in turn, helped keep organizations from shuttering and put employers in a better position to keep workers on and to hire them back as the recovery continues.

These programs have served as a backstop to key credit markets and helped to restore the flow of credit from private lenders through normal channels. We have deployed these lending tools to an unprecedented extent. Our emergency lending tools require the approval of the Treasury and are available only in unusual and exigent circumstances, such as those brought on by the crisis.

Many of these programs were supported by funding from the Coronavirus Aid, Relief, and Economic Security (CARES) Act. Those facilities provided essential support through a very difficult year and are now closed.

The Federal Reserve completed its sales of assets from the Secondary Market Corporate Credit Facility on August 31. We were able to wind down the facility rapidly and efficiently, with no adverse impact on credit conditions. The Federal Reserve also recently closed the Paycheck Protection Program Liquidity Facility to new lending, and the facility is now in runoff mode. Similarly, we are managing the paydown of assets in our other CARES Act facilities as they wind down over time. We continue to analyze the facilities' efficacy and to review the lessons learned.

To conclude, our actions affect communities, families, and businesses across the country. Everything we do is in service to our public mission. We at the Fed will do all we can to support the economy for as long as it takes to complete the recovery. Thank you. I look forward to your questions.

Summary of Section 13(3) Facilities Using CARES Act Funding
(Billions of dollars)

Facility	Announced	Closed	Maximum capacity[1]	Peak amount of assets[2]	Current amount of assets[2]	Treasury equity remaining[3]
Corporate Credit Facilities[4]	Mar. 23, 2020	Dec. 31, 2020	750	14.3	0	0[4]
Main Street Lending Program	Apr. 9, 2020	Jan. 8, 2021	600	16.6	13.4	16.6
Municipal Liquidity Facility	Apr. 9, 2020	Dec. 31, 2020	500	6.4	4.4	6.3
TALF	Mar. 23, 2020	Dec. 31, 2020	100	4.1	1.5	3.5

Note: The data are current as of September 22, 2021.

1. The maximum authorized amount of facility asset purchases.
2. Current and peak outstanding amounts of facility asset purchases.
   - For the Corporate Credit Facilities (consisting of the Primary Market Corporate Credit Facility and the Secondary Market Corporate Credit Facility), includes exchange-traded funds at fair value and corporate bonds at book value. Asset balances from trading activity are reported with a one-day lag after the transaction date.
   - For the Main Street Lending Program, includes loan participations at principal amount outstanding, net of an allowance for loan losses, updated as of June 30, 2021.
   - For the Municipal Liquidity Facility, includes municipal notes at book value.
   - For the TALF (Term Asset-Backed Securities Loan Facility), includes loans to holders of eligible asset-backed securities at book value.
3. The amount of the Treasury contribution to the credit facilities.

   Source: For the amount of assets and Treasury equity remaining, see Federal Reserve Board (2021), Statistical Release H.4.1, "Factors Affecting Reserve Balances of Depository Institutions and Condition Statement of Federal Reserve Banks" (September 23), https://www.federalreserve.gov/releases/h41; the peak amounts of assets for each facility are based on the H.4.1 from the start of the corresponding facility until September 22.
4. Treasury preferred equity of $13.9 billion was returned to the Treasury on September 24, 2021, as reflected in notices available on the Federal Reserve Bank of New York's public website at https://www.newyorkfed.org/markets/secondary-market-corporate-credit-facility. This transaction will be reflected in the H.4.1 statistical release published on September 30, 2021.

United States Senate
Committee on Banking, Housing, and Urban Affairs
Hearing on "CARES Act Oversight of the Treasury and Federal Reserve: Supporting an Equitable Pandemic Recovery"
Tuesday, September 28, 2021

Questions for the Record

Responses from Treasury Secretary Janet Yellen

Questions for The Honorable Janet L. Yellen, Secretary, Department of the Treasury, from Chairman Sherrod Brown:

1. Shadow banking contributed to the 2008 Financial Crisis and subsequent global recession. I am concerned that the rise in cryptocurrencies pose many of the same risks. With global banks beginning to use and increase their exposure to cryptocurrencies, are there parallels that you see with the 2008 financial crisis? What risks do cryptocurrencies pose to financial stability?

    - **Answer: The cryptocurrency market has grown rapidly over the past year and federal regulators are reviewing the risks posed by cryptocurrencies. The President's Working Group on Financial Markets (PWG) has made recommendations on managing the risks presented by stablecoins. The federal banking regulators also recently concluded a "crypto sprint" that sought to understand banks' participation in crypto markets and identify potential regulatory responses. Moreover, the Financial Stability Oversight Council (FSOC) monitors potential risks related to cryptocurrencies and digital assets more broadly. In its most recent annual report, FSOC recommended that federal and state regulators continue to support responsible innovation by examining the benefits of, and potential risks to the financial system posed by, new and emerging uses of digital assets and distributed ledger technologies. It also recommended that financial regulators should review existing and planned digital asset arrangements and their risks as appropriate.**

Questions for The Honorable Janet L. Yellen, Secretary, Department of the Treasury, from, Ranking Member Patrick J. Toomey:

Capital

1. As the Federal Reserve, FDIC, and OCC prepare to implement the remaining elements of the Basel III capital framework, I am concerned that more stringent rules will apply to U.S. banks than their international peers, creating a competitive disadvantage. For example, there have recently been reports that regulators in France, Germany, and other European Union (EU) countries are seeking to implement a less stringent version of Basel III.[1] I have long been concerned about outsourcing regulation of U.S. banks to foreign organizations, as well as the overly burdensome capital requirements that result from aspects of the Basel framework.

    a. If non-U.S. jurisdictions propose a less stringent version of Basel III, do you believe U.S. regulators should adjust their rules accordingly to maintain the international competitiveness of U.S. banks?

        - **Answer: As with many questions of financial regulation, coordinating with our allies and with international bodies is essential to achieving regulatory outcomes that serve American interests and protect financial stability. The international standard-setting process is one of the key ways that the Administration and U.S. financial regulators can promote financial stability and a level playing field that benefit the U.S. and global economy, consumers, and businesses. The Basel Committee performs periodic monitoring and assessment to ensure consistency and completeness of standard adoption and a level playing field, and Treasury makes standard adoption a focus of our bilateral financial regulatory engagement with the EU and others.**

    b. How could disparate rules across jurisdictions impact the cost of credit to U.S. consumers?

        - **Answer: As with many questions of financial regulation, coordinating with our allies and with international bodies is essential to achieving regulatory outcomes that serve American interests and protect financial stability. It is vital that we continue to aim to mitigate risks and promote a sound financial system at home and abroad so that Americans have steady access to finance.**

---
[1] https://www.ft.com/content/0122b5c4-1cd2-4c17-aaee-590f10205543

Treasury Market Reform

2. SEC Chair Gary Gensler has publicly stated that potential reforms are need for the Treasury markets. Do you agree and, if so, which agency will take the lead in further reform?

    - **Answer: Treasury is currently engaged in an interagency process to study recent disruptions to the Treasury market. The study will consider a range of potential reforms in an effort to enhance the resilience of this market going forward and to minimize the need for government interventions during stress. Any decisions on reforms will involve the work of various authorities and plans would be communicated to the public well in advance of implementation. The Interagency Working Group on Treasury Market Surveillance recently issued a staff progress report on this topic, available at https://home.treasury.gov/system/files/136/IAWG-Treasury-Report.pdf.**

3. SEC Chair Gary Gensler has suggested central clearing of Treasury securities as a potential reform. What, if any, other reforms to the regulation of the Treasury markets should be considered?

    - **Answer: Treasury's interagency work in this area includes evaluating the possible effects of expanded central clearing. However, there remain other areas worth exploring that could improve the functioning of the Treasury market. Some of these areas include improving the resilience of market intermediation, improving data quality and availability, enhancing trading venue transparency and oversight, and examining the effects of leverage and fund liquidity risk management practices.**

OECD Tax Agreements

4. In the hearing, you claimed that there could be alternate routes to implementing Pillar One of the OECD tax agreement. Please outline such processes and explain why, in your opinion, they would not require a formal treaty and Senate ratification.

    - **Answer: Pillar 1 is subject to ongoing international discussion, and what is needed to implement Pillar 1 will depend on the details of those discussions. I understand that Treasury regularly updates Congress on a bipartisan basis on the ongoing discussions on Pillar 1, and at the appropriate time will consult on the form a Pillar 1 agreement would take. My goal is to proceed with Pillar 1 implementation on a basis that both respects the prerogatives of the two branches of government and is bipartisan. I will work with Congress and my colleagues at Treasury and the State Department to determine the appropriate approach to implementing an agreement.**

Cryptocurrencies

5. Recent reports indicate that Treasury, along with other agencies, may propose that stablecoin providers register as banks or apply for a special-purpose charter. If stablecoin providers are treated similar to banks, should they be permitted to make loans with a portion of their reserves, like banks do now?

   - **Answer: The President's Working Group on Financial Markets (PWG), together with the Federal Deposit Insurance Corporation and the Office of the Comptroller of the Currency, issued its report on stablecoins on November 1, 2021. The PWG report highlights gaps in the authority of federal regulators to address the risks of payment stablecoins and recommends that Congress act promptly to enact legislation to ensure that payment stablecoins and payment stablecoin arrangements are subject to a federal framework on a consistent and comprehensive basis. The PWG report specifically recommends that to address risks to stablecoin users and guard against stablecoin runs, legislation should require stablecoin issuers to be insured depository institutions, which are subject to appropriate supervision and regulation, at the depository institution and the holding company level.**

6. Does Treasury believe the Financial Stability Oversight Council (FSOC) has the authority to designate all stablecoin providers as financial market utilities or payment, clearing, or settlement activities?

   - **Answer: To address prudential risks associated with the use of stablecoins as a means of payment, the PWG Report on Stablecoins recommends that Congress act promptly to ensure that payment stablecoins are subject to appropriate federal prudential oversight on a consistent and comprehensive basis. In the absence of Congressional action, the report recommends that the Council consider steps available to it to address the risks outlined in the report. As Treasury's work on stablecoins progresses, it intends to evaluate how FSOC's designation authority with respect to financial market utilities and payment, clearing, and settlement activities may potentially apply to stablecoin arrangements.**

7. The Financial Action Task Force (FATF) has released updated draft guidance on cryptocurrencies and virtual asset service providers which could subject to regulation entities that never take custody of or control another person's assets. This is counter to existing FinCEN guidance, which has made clear that miners, certain wallet providers, software developers, and other non-custodial services are not subject to Money Service Business registration. In light of this FATF guidance, does Treasury believe that non-custodial services should be subject to Money Service Business registration?

   - **Answer: In June 2019, under the U.S. Presidency of the FATF, the FATF revised its standards to explicitly require virtual asset service providers**

(VASPs) to implement the full range of preventive measures for AML/CFT and issued guidance to aid jurisdictions with swiftly implementing laws and regulations for this sector using a risk-based approach. The principal aim of the FATF standards and the Updated Guidance for a Risk-based Approach to Virtual Assets and VASPs, which was published last month, is to regulate financial activity and not technology. I agree with standing FinCEN guidance on this topic, and I believe the FATF does, too.

In the updated guidance, the FATF clarified that the intent of the standards was not to regulate as VASPs natural or legal persons that provide only ancillary services or products to a virtual asset network, including hardware wallet manufacturers, providers of unhosted wallets, software developers, or miners that are not otherwise engaged in covered activities. Additionally, I would like to point out that the purpose of the FATF guidance is to help jurisdictions implement the existing FATF standards for VASPs and guidance does not and indeed cannot alter the existing FATF standards. It is important to note that the guidance is not a part of the FATF standards, against which countries are assessed in mutual evaluations and follow up reports. Additionally, the FATF received substantive input from public consultation for the updated guidance in March, which was constructive and informed the final product. In the final version of the updated guidance, the FATF clarified that the intent was not to regulate as VASPs natural or legal persons that provide ancillary services or products to a virtual asset network, including hardware wallet manufacturers, providers of unhosted wallets, software developers, or miners that are not otherwise engaged in covered activities.

8. In July 2018, Treasury recommended that "if states are unable to achieve meaningful harmonization across their licensing and supervisory regimes within three years, Congress should act to encourage greater uniformity in rules governing lending and money transmission to be adopted, supervised, and enforced by state regulators."[2] After three years, what actions does Treasury recommend that Congress take to provide for greater uniformity?

    - **Answer: Note that this report and its recommendations were revoked by the White House in February 2021 through the Executive Order on the Revocation of Certain Presidential Actions. That notwithstanding, the Conference for State Bank Supervisors (CSBS) has made progress in the last three years in seeking greater harmonization of state licensing requirements through their Vision 2020 initiative. In September 2021, CSBS released the Uniform Money Transmission Modernization Act, which is intended to serve as a template for states to draft and pass legislation to replace state-specific money transmitter laws and rules with a single set of nationwide standards.**

[2] U.S. Department of the Treasury, "Nonbank Financials, Fintech, and Innovation," available at https://home.treasury.gov/sites/default/files/2018-08/A-Financial-System-that-Creates-Economic-Opportunities---Nonbank-Financials-Fintech-and-Innovation_0.pdf

CSBS' latest Fintech Industry Advisory Panel Accountability Report also discusses additional progress made under the Vision 2020 initiative.[3]

Congressional Oversight

9. On June 10, 2021, I sent you a letter requesting by June 25, 2021, certain records in the possession of the Treasury Department related to the Biden administration's efforts to enter into a nuclear agreement with, and/or provide sanctions relief to, Iran, the world's foremost state sponsor of terrorism. On September 7, 2021, Treasury provided a one-page letter in response but has not provided any of the records I requested more than 115 days ago. Why has Treasury not provided any of these records?

   - **Answer: As stated in our response of September 7, we share your concerns related to Iran's support for terrorism, human rights abuses, nuclear escalation, and the development and proliferation of ballistic missiles, as well as its destabilizing activities in the region. With respect to the production of records related to diplomatic initiatives, we respectfully defer to the State Department. With respect to future sanctions actions, Treasury will continue to use the tools at its disposal, including sanctions, to address the full range of Iran's destabilizing behavior.**

10. In my June 10, 2021 letter, I requested that Treasury produce by June 25, 2021: "All reports or other assessments describing or referring to the national security implications of providing billions of dollars in sanctions relief to the IRGC-controlled regime in Iran, including but not limited to, any analyses that have led the administration to conclude that lifting sanctions on Iran-affiliated terrorist entities furthers U.S. national interests." Has Treasury conducted a search reasonably calculated to locate all responsive records in the possession, custody, or control of Treasury related to this request? Please answer "yes" or "no."

    - If "yes," did this search identify any responsive records in the possession, custody, or control of Treasury? Please answer "yes" or "no."

    - If "yes," will you commit to timely producing these records?

        - **Answer: As stated in our response of September 7, we share your concerns related to Iran's support for terrorism, human rights abuses, nuclear escalation, and the development and proliferation of ballistic missiles, as well as its destabilizing activities in the region. With respect to the production of records related to reports or other national security assessments, we respectfully defer to the Intelligence Community.**

---

[3] Fintech Industry Advisory Panel Accountability Report, February 19, 2021, https://www.csbs.org/policy/statements-comments/fintech-industry-advisory-panel-accountability-report-feb-2021.

11. In my June 10, 2021 letter, I requested that Treasury produce by June 25, 2021: "Records sufficient to demonstrate the Biden administration's determination to enforce mandatory Iran oil sanctions on Chinese violators of (i) the Iran Freedom and Counter-Proliferation Act of 2012 (P.L. 112- 239) and/or (ii) Section 1245 of the Fiscal Year 2012 National Defense Authorization Act (P.L. 112-81)." Has Treasury conducted a search reasonably calculated to locate all responsive records in the possession, custody, or control of Treasury related to this request? Please answer "yes" or "no."

    - If "yes," did this search identify any responsive records in the possession, custody, or control of Treasury? Please answer "yes" or "no."
    - If "yes," will you commit to timely producing these records?
        - **Answer: As stated in our response of September 7, we indicated we could provide a classified briefing in response to your request for such records. We were pleased to provide your staff with a classified briefing on this topic on Wednesday, October 20.**

12. In my June 10, 2021 letter, I requested that Treasury produce by June 25, 2021: "Records sufficient to demonstrate the steps the Biden administration will take to make good on its promise to reach a 'longer and stronger' accord that will block Iran's nuclear pathways for generations and address the full range of Iranian threats, including terrorism, ballistic missiles, and the detention of U.S. nationals." Has Treasury conducted a search reasonably calculated to locate all responsive records in the possession, custody, or control of Treasury related to this request? Please answer "yes" or "no."

    - If "yes," did this search identify any responsive records in the possession, custody, or control of Treasury? Please answer "yes" or "no."
    - If "yes," will you commit to timely producing these records?
        - **Answer: As stated in our response above, with respect to the production of records related to diplomatic initiatives, including with respect to addressing the full range of Iranian threats, we respectfully defer to the State Department.**

13. Has anyone in the White House, Treasury Department, or another Federal agency advised you not to produce any of these records? Please answer "yes" or "no."

    - "If yes," please identify the official(s) or employee(s) who advised you not to produce any such records and the justification that the official or employee provided for not producing them.
        - **Answer: The Treasury Department respects Congress's important oversight role and remains committed, consistent with longstanding**

Executive Branch policy, to working with Congress through the accommodation process to be responsive to oversight requests.

IMF Special Drawing Rights (SDRs)

14. As my colleagues and I warned this spring, an untargeted allocation of SDRs will provide funding to projects that are against the best interests of the United States, such as repaying predatory loans from China[4] and bailing out state-owned oil companies.[5] You stated in March 2021 that you will "work with [developing nations] and with China to ensure that they don't go to repay their loans from the Belt and Road initiative.[6]"

- Please provide an overview of your efforts to do so.

  - **Answer: The United States supported the IMF's recent general SDR allocation to bolster global liquidity and provide countries space to rebuild the buffers reduced by the COVID crisis and avert deeper economic scarring. SDRs are, by design, an unconditional reserve asset that countries can draw on readily to meet their liquidity needs, so neither Treasury nor the IMF can directly control the uses to which countries put their SDRs. We have, however, engaged extensively with IMF staff and management to minimize the risks of misuse of the SDR allocation. We pressed the IMF to agree to increasing the transparency of SDR exchanges, including by agreeing to publish quarterly reports on the uses of the proceeds of SDR exchanges, whether for fiscal support to the economy, health expenditures including purchases of vaccines, paying multilateral debt or interest obligations or to increase holdings of hard currency. We have not seen evidence at this stage that countries in debt distress have used the liquidity provided by the SDR allocation to repay Chinese-held debt.**

    In addition to pressing for increased transparency around SDR exchanges, we pressed for the IMF to provide proactive guidance to countries on effective uses for their SDRs. Accordingly, the IMF published guidance in advance of the SDR allocation on best uses, which made clear that SDRs should not be used to delay needed debt restructurings or to service unmanageable debt burdens. Since many countries are confronting debt distress, we are continuing to work to advance the Common Framework and provide debt treatments through robust participation by all official creditors, including China.

    Finally, we are continuing to work to build on the effectiveness of the SDR allocation by developing frameworks for major economies to

[4] https://www.businessdailyafrica.com/bd/economy/kenya-seeks-imf-aid-repay-chinese-loans-3557198
[5] https://www.reuters.com/business/energy/mexican-president-hints-eyeing-imf-funds-pay-pemex-debt-2021-09-06/
[6] https://www.bloomberg.com/news/articles/2021-03-24/yellen-gets-testy-with-gop-senator-questioning-over-imf-funding

voluntarily channel some of their SDRs to vulnerable countries, and we are working to bring China into this effort. China supported the recent G20 leaders' declaration, which welcomed the IMF's work to establish facilities for channeling SDRs and endorsed an ambition of channeling $100 billion to vulnerable countries.

Questions for The Honorable Janet L. Yellen, Secretary, Department of the Treasury, from, Senator Robert Menendez:

1. The Homeowner Assistance Fund was authorized by Congress in the American Rescue Plan. Especially now that state and national foreclosure moratoria are ending, it's critical we get these funds out to the people that need them so we can keep families impacted by COVID in their homes and avoid a wave of foreclosures that could have a cascading effect on our communities and our overall housing market.

    a. Given the recent or upcoming expiration of foreclosure moratoria, have you expedited reviews of applications for the Homeowner Assistance Fund at all?

        - **Answer: Within 45 days of the enactment of the ARPA, Treasury issued initial guidance for the HAF program and made available 10% of every eligible participant's allocation. Treasury disbursed upfront payments of almost $1 billion to states, territories, the District of Columbia, and Tribes. This initial funding allowed participants not only to set up their programs but also to begin providing immediate assistance to homeowners in need. At least 17 states launched pilot programs and are currently serving eligible homeowners.**

          To access the remaining 90% of their HAF allocation, participants must submit and obtain Treasury's approval on an HAF plan that describes how they will use the funding consistent with the statute and Treasury's guidance. Treasury designed the HAF program so that states need to submit plans for approval, based on feedback from advocates and experts and experience with past programs, to ensure these funds are distributed equitably and reach underserved communities. Treasury opened the portal for HAF submissions in August as has begun to approve plans. To date, we have received 161 plans from 45 states, 2 territories, and 114 Tribes. Treasury is actively reviewing plans and has provided feedback to more than 30 states and has already approved several plans, including those submitted by Tribes with allocations under $5 million.

          The HAF Plan review process will be important for encouraging consistency among state plans. Through the HAF plan review process Treasury is encouraging states to consider key policy priorities, including the following.

            - **Treasury is encouraging states to support homeowners to access loss-mitigation options available through their servicers so that HAF funds can be used to serve those who are unable to achieve a sustainable resolution through the existing loss mitigation process.**

- **Treasury is encouraging states to provide access to robust housing counseling and legal services options.**
- **Treasury is encouraging states to prioritize socially disadvantaged individuals, consistent with the statute. Targeted marketing and prioritization of assistance to those households that have experienced barriers to fair credit will be important for ensuring the equitable distribution of HAF resources.**
- **As utility and home heating costs increase going into the winter months, the plan review process allows us to reach out to states to ensure that they are assessing the need to provide utility assistance under HAF.**

The Administration's extension of foreclosure moratoria and actions by a range of federal agencies (e.g., HUD, VA, USDA, FHFA, and CFPB) have provided substantial protection for homeowners throughout 2021.

b. When do you expect to provide feedback or approvals to those who have applied so they can begin disbursing the funds to families at risk of losing their homes?

- **Answer: As noted in the response above, states have received 10% of their allocations and many are already serving eligible homeowners. Treasury has provided feedback to more than 30 states and has begun to approve plans. Treasury will continue to approve plans rapidly as states provide adequate responses to our feedback and questions.**

Questions for The Honorable Janet L. Yellen, Secretary, Department of the Treasury, from, Senator Elizabeth Warren:

Racial Equity Assessment

On January 20, 2021, President Biden signed an Executive Order (EO) On Advancing Racial Equity and Support for Underserved Communities Through the Federal Government.7 The EO instructed each agency to review its programs and policies to "assess whether underserved communities and their members face systemic barriers in accessing benefits and opportunities available pursuant to those policies and programs." The EO stated that agency heads should conduct this equity assessment and within 200 days (i.e. by August 9, 2021) provide a report to the Assistant to the President for Domestic Policy on its findings.

The Treasury Department, including the Internal Revenue Service (IRS), has many programs and policies that impact underserved communities and their members, including the Child Tax Credit (CTC) and Earned Income Tax Credit (EITC), as well as tax enforcement activities.

1. What programs and policies did the Treasury Department select for this equity assessment?

    - **Answer:**
        - **Tax payment implementation: The IRS will analyze programs that the Treasury Department and the IRS have carried out to disburse advance payments of tax benefits. These programs include each round of Economic Impact Payment (EIP) disbursement as well as the advance payment of the 2021 Child Tax Credit (CTC). Recipients of EIPs provide a unique opportunity for this evaluation due to the scope of the EIP program, as well as the available data generated through outreach efforts by the Treasury Department and the IRS to bring eligible participants into the Federal income tax system. In particular, the IRS is carrying out this analysis to identify disparate impacts resulting from the EIP and CTC programs. The results of this evaluation will inform future outreach efforts by the Treasury Department and the IRS as well as implementation of future advance payment programs, such as the potential 2022 advance Child Tax Credit payment program.**
        - **Tax policy research: Tax Policy experts, in collaboration with IRS researchers, can review regulations to see if there are instances where racial and gender equity can be enhanced through modification. For example, a review of the Low-Income Housing Tax Credit regulations might address situations where State Credit Plans systematically concentrate low-income housing in specific areas.**

[7] The White House, "Executive Order On Advancing Racial Equity and Support for Underserved Communities Through the Federal Government," January 21, 2021, https://www.whitehouse.gov/briefing-room/presidential-actions/2021/01/20/executive-order-advancing-racial-equity-and-support-for-underserved-communities-through-the-federal-government/.

- **Treasury Offset Program: Fiscal Service will partner with a third party to obtain data sources and analyze debtor demographics to better understand the composition of the debt portfolio to determine if there are issues of fairness, equity, or access and to help highlight for other agencies if and where program enhancements should be considered.**
- **Departmental Offices (DO)-led American Rescue Plan (ARP) programs: Treasury will partner with the General Services Administration to conduct initial assessments for each ARP program being implemented by DO, including the Emergency Rental Assistance program, which directly aligns with your affordable housing priority. This will enable programs to adjust guidance and program design, understand distribution and access, and identify potential barriers to equity and immediate implementation adjustments.**

2. What were the findings of the Treasury Department's equity assessment?

    - **Answer: Treasury equity assessment efforts are ongoing. Draft Equity Action Plans for the programs listed above are due to OMB on November 30, 2021, and Final Plans are due to OMB on January 20, 2022. The Department plans to incorporate goals and objectives in its Strategic Plan to track progress and hold the Department accountable for compliance with the order.**

3. What steps is Treasury Department taking in response to the findings of its equity assessment, and on what timeline?

    - **Answer: Since equity assessments efforts are ongoing, the Department has not yet reported any findings for the stated programs.**

Data Working Group

The January 21, 2021 equity EO also established an Interagency Working Group on Equitable Data (Data Working Group), with membership include, among others, the Secretary of the Treasury, through the Assistant Secretary of the Treasury for Tax Policy.[8] The EO provided that the Data Working Group shall "study and provide recommendations… identifying inadequacies existing Federal data collection programs, policies, and infrastructure across agencies" and "support agencies in implementing actions… that expand and refine the data available to the Federal Government to measure equity and capture the diversity of the American people."[9]

4. Please provide an update on the work of the Data Working Group in the Treasury Department's jurisdiction, including with respect to IRS enforcement data.

[8] *Id.*
[9] *Id.*

- **Answer: The Equitable Data Working Group has been working on several projects:**
  - **With respect to Treasury's involvement, we are examining how to link data from Census, IRS, and SSA in order to better explore questions of equity and the tax code. The IRS RAAS (research, applied analytics and statistics) division has been very helpful in doing legwork on these projects.**
  - **Treasury is overseeing the construction of a set of tables constructed by Census using matched IRS/Census data to examine the possible equity issues surrounding the first EIP payments. The agencies are exploring what data can be shared given disclosure concerns.**

5. What data inadequacies have been studied by the Data Working Group, and what is the timeline for making and implementing recommendations?

   - **Answer: Treasury does not collect race and ethnicity data about IRS recipients. We have therefore engaged in long term work projects aimed at data imputation, data source matching, and data sharing. Progress is already being made, and we have some preliminary analyses completed. But the full scope of this work in ongoing and will take years.**

6. What public and Congressional engagement and disclosure should we expect from the Data Working Group?

   - **Answer: Once Treasury has peer reviewed our analysis and disclosure avoidance analysis has been completed by Census, we hope we will have something we can share with the public**

Revolving Door

On September 19, the *New York Times* exposed how large accounting firms—EY, Deloitte, KMPG, PwC, and RSM—send their lawyers into high-ranking positions in the Treasury Department and IRS to create new tax loopholes for their clients, and then reward the same lawyers with bigger paychecks and promotions upon their return.[10] The American people deserve to know that Treasury and IRS officials are working on their behalf and not for past or future private sector employers.

Given that existing ethics rules have proved inadequate, I have introduced the *Anti-Corruption and Public Integrity Act* to firmly shut the revolving door.[11] The decades-long scam documented by the *Times* in which large accounting firms have abused the revolving door between the government and the private sector to help their wealthy clients avoid paying their fair share of

---

[10] *The New York Times*, "How Accounting Giants Craft Favorable Tax Rules From Inside the Government," Jesse Drucker and Danny Hakim, September 19, 2021, https://www.nytimes.com/2021/09/19/business/accounting-firms-tax-loopholes-government.html.

[11] *Anti-Corruption and Public Integrity Act*, S. 5070, https://www.congress.gov/bill/116th-congress/senate-bill/5070/.

taxes demonstrates precisely why this legislation is necessary. The Treasury Department should also consider taking action itself.

7. In the past ten years, how many lawyers or other employees at EY, Deloitte, KMPG, PwC, and RSM have taken tax-policy positions in the Treasury Department (including the IRS)?

    - **Answer: We do not have this information readily available, and it would be a tremendously difficult task to construct such records for all such Treasury and IRS employees. It may also be the case that the information does not exist in our records or would be at best only anecdotal.**

8. For each of these employees, please provide the following information:

    a. When they came to the Treasury Department, and when they left.

        - **Answer: Please see response to question 7.**

    b. What position(s) they served in in the Treasury Department, and what their specific responsibilities were in those positions, including any regulatory or legislative matters they worked on that may have affected the clients of their accounting firm employer.

        - **Answer: Please see response to question 7. In addition, we do not have any information regarding how any legislative or regulatory activity may have affected unknowable clients of the former employers of our former employees.**

    c. If you are in possession of such information, please provide information on (a) which of those employees returned to the accounting firm that they left to join the Treasury Department (b) which of these employees returned to a different accounting firm.

        - **Answer: We do not possess the requested information.**

9. What are the Treasury Department's policies to guard against conflicts of interest for employees who formerly worked for – and may work again for – accounting firms and other companies with business impacted by Treasury Department decisions?

    - **Answer: The Treasury Department holds its employees to the highest ethical standards. We educate employees regarding their responsibilities under the Ethics in Government Act, the Standards of Conduct for Employees of the Executive Branch, the current Administration Ethics Pledge/EO in effect, the criminal conflicts of interest statutes, found in 18 U.S.C. §§ 201-209, and other ethics-related statutes and regulations.**

Employees who formerly worked for an accounting firm will have a "covered relationship" with their former employer and any client they personally serviced within the year preceding their Treasury appointment under the Standards of Conduct impartiality regulation. The existence of a "covered relationship" means that an employee may not work on a particular matter involving specific parties (this typically involves a specific proceeding affecting the legal rights of parties or an isolatable transaction between identified parties, such as a contract, grant, or court case) in which someone with whom they have a covered relationship is or represents a party to the matter, if a reasonable person would question their impartiality, absent an authorization issued by an ethics official.

If an employee received an "extraordinary payment" from a former employer, then the impartiality regulation requires a two-year recusal from specific party matters where the former employer is or represents a party. Under the current Ethics Pledge, an employee is precluded from working on party matters involving former employers or clients, as defined in EO 13989, for two years from their date of appointment. This includes the same party matters captured by the impartiality regulation and also extends to communications with former employers/clients unless it is a discussion about a matter of general applicability or a broad matter that is open to interested parties.

Treasury employees who are seeking non-federal employment are advised to receive ethics advice so that they can recuse from particular matters that may affect the potential employer's financial interests, as needed (recusal is accomplished by not participating in the particular matter).

Public financial disclosure filers negotiating for or with an arrangement of future employment or compensation with a non-federal entity are required to file a statement notifying an ethics official of such negotiation/agreement within three business days after commencement of the negotiation or agreement. It is Treasury's practice to advise employees on applicable ethics restrictions upon receipt of these "STOCK Act" notifications.

Lastly, financial disclosure filers (both public and confidential) are required to report any existing arrangement for non-federal employment in annual and termination filings.

10. Is the Treasury Department considering any changes to address the revolving door concerns raised in the New York Times reporting?

    - **Answer: We continue to hold Treasury employees to high standards to guard against conflicts of interest, but we would welcome a conversation to discuss any particular concerns or suggestions.**

Information Reporting

Currently, when Americans earn wage income and file their taxes, the IRS can verify that income with the third-party reporting of their employers. But the ultra-rich have opaque sources of income that are exempt from information reporting, like income from owning a passthrough business or selling or renting out real estate. This is an honor system for the rich, and it does not work. The top 1% of Americans fail to report more than a fifth of their income on their tax returns, and they account for more than a third of all unpaid federal income tax.[12] This kind of underreporting has helped drive the tax gap – the difference between taxes owed and taxes paid – to exceed an estimated $1 trillion annually.[13]

Congress is considering proposals to give the IRS the resources that it needs to go after wealthy and corporate tax cheats and close the tax gap. These proposals include additional third-party reporting requirements that would build on existing reporting to the IRS by financial institutions and help the IRS verify the opaque incomes of the wealthy.

But banks are lobbying hard against this information reporting proposal,[14] and misinformation is being spread about it online.[15] Can you help clarify what this proposal is <u>not</u>?

11. Would this proposal give the IRS information on specific transactions, such as individual withdrawals, deposits, and transfers that Americans make from their personal banking accounts?

    - **Answer: Unfortunately, Congressional consideration of this proposal has been marred by misinformation, as opponents have elevated the myth that banks will have to report all individual customers' transactions to the IRS. This is unequivocally false, and an incorrect representation of the proposals under consideration. Simply put, the financial reporting proposal in front of Congress does not mandate that individual transactions of any amount be reported to the IRS.**

12. Is third-party reporting a novel mechanism for the IRS to verify the income that Americans report on their tax returns and to better target audits at suspicious individuals and businesses?

---

[12] National Bureau of Economic Research, "Tax Evasion at the Top of the Income Distribution," John Guyton, Patrick Langetieg, Daniel Reck, Max Risch, Gabriel Zucman, Working Paper 28542, March 2021, https://www.nber.org/system/files/working_papers/w28542/w28542.pdf.

[13] Reuters, "IRS chief says $1 trillion in taxes goes uncollected every year," David Lawder, April 13, 2021, https://www.reuters.com/article/us-usa-treasury-irs/irs-chief-says-1-trillion-in-taxes-goes-uncollected-every-year-idUSKBN2C0255.

[14] *The Wall Street Journal*, "Yellen, IRS Push Democrats to Require Banks to Report Taxpayers' Annual Account Flows," Richard Rubin and Orla McCaffrey, September 15, 2021, https://www.wsj.com/articles/yellen-irs-push-democrats-to-require-banks-to-report-annual-account-flows-11631727020.

[15] Salon, "How the banking industry is using social media to kill Biden's efforts to tax the rich," Brett Bachman, September 16, 2021, https://www.salon.com/2021/09/16/how-the-banking-industry-is-using-social-media-to-bidens-efforts-to-the-rich/.

- **Answer: Third-party reporting is already a common feature of the tax system. Most working Americans who are paid wages or salaries, like firefighters and teachers, are making good on their tax obligations. For these workers, the compliance rate on reporting their wages is 99 percent. This is because wage earners get a W-2 in the mail each year, detailing what they've earned from their employers, and that same information goes to the IRS as well. Taxes are automatically deducted from paychecks, and employees pay what they owe.**

  High-income earners, however, often accrue business or pass-through income that is not reported by a third-party to the IRS, so taxes are less likely to be appropriately paid. For these types of income, compliance rates can be under 50 percent in the absence of any third-party reporting. That is a large part of the reason why, in 2019, the top 1 percent of earners in the United States were responsible for an estimated $163 billion in unpaid taxes. If we were able to collect the taxes that were due from the very wealthiest among us, this revenue would be more than sufficient to support critical initiatives in the Build Back Better agenda—such as an expanded Child Tax Credit that lifts millions of children out of poverty.

  The IRS, the Government Accountability Office, and academic experts all agree that third-party reporting is the best way to improve tax compliance. That is why the Biden Administration supports an improved financial reporting regime. These changes can raise hundreds of billions of dollars over the course of the next decade, not by raising taxes or increasing oversight on American wage and salary workers, but by working to ensure that those who accrue income in more complex ways pay the taxes they owe.

13. Is this proposal aimed at increasing IRS enforcement with respect to low- and middle-income Americans, many of whom are already subject to third-party reporting?

- **Answer: Any additional IRS scrutiny will be focused on the high end of the income distribution, where it belongs, given the distribution of the tax gap. In fact, audit rates will not rise relative to recent years for anyone making less than $400,000 per year.**

  Ultimately, the President's proposal seeks to pare back tax evasion by shedding some light on opaque sources of income that accrue disproportionately to the top 1 percent of earners. A robust attack on tax evasion will raise substantial revenue to fund necessary investments in American families, increase the efficiency and fairness of the tax system, and create a more just society.

Leveraged Lending

The leveraged lending market involves multiple entities and participants that are subject to oversight from different regulators. Congress created FSOC to ensure adequate oversight of such cross-cutting markets.

14. In your capacity as the head of FSOC, what is FSOC doing to monitor the growing leveraged lending market and to coordinate responses across the different agencies with relevant jurisdiction?

    - **Answer: A key goal of the Council and its member agencies is to monitor vulnerabilities to U.S. financial stability so that abrupt and unpredictable changes in economic or financial conditions do not disrupt the ability of the financial system to meet the demand for financial services. Consistent with this goal, FSOC has monitored developments in the leveraged lending market and reported its findings in recent FSOC annual reports. The Council has conducted analysis of the leveraged lending sector specifically, while also conducting a broader evaluation of nonfinancial corporate credit. In its most recent annual report, the Council recommended that agencies continue to monitor levels of nonfinancial business leverage, trends in asset valuations, and potential implications for the entities they regulate in order to assess and reinforce the ability of the financial sector to manage severe, simultaneous losses. The Council has also facilitated a collaborative discussion of these risks by member agencies.**

15. Last year, a GAO Report indicated: "FSOC identified leveraged lending activities as a source of potential risk to financial stability before the COVID-19 shock and recommended continued monitoring and analysis. However, FSOC does not conduct tabletop or similar scenario-based exercises where participants discuss roles and responses to hypothetical emergency scenarios. As a result, FSOC is missing an opportunity to enhance preparedness and test members' coordinated response to financial stability risks." Does FSOC have any plans to incorporate these exercises in the future?

    - **Answer: The Council is composed of the heads of federal and state financial regulatory agencies, and it often leverages the work and expertise of member agencies in order to ensure that risks are appropriately evaluated while avoiding unnecessary overlap or duplication of effort. Several of these financial regulators organize tabletop exercises, and FSOC staff participate in those activities. In certain cases, consistent with GAO's recommendation, FSOC has found it appropriate to engage in independent activities to supplement the work of member agencies, including by generating rigorous analyses for interagency discussion.**

16. From Treasury's perspective, are there gaps in the data collection and transparency in this market that need to be addressed? If so, please describe them.

- **Answer: High-quality financial data is crucial when assessing potential risks to the financial system, including those associated with leveraged lending. The Council and its member agencies rely on data collected from a range of sources to monitor developments in the financial system, identify potential risks to financial stability, and in the case of member agencies, prioritize and execute supervisory and examination work. The Council draws on this data to inform its monitoring of developments in leveraged lending markets, and as its analysis progresses, the Council will seek to identify potential data gaps that may need to be addressed.**

Questions for The Honorable Janet L. Yellen, Secretary, Department of the Treasury, from, Senator Kyrsten Sinema:

1. Arizona's economy is recovering, in large part due to the investments made in passing the CARES Act and the American Rescue Plan. Recently, economists reported that Arizona has recovered 95% of the jobs we lost during the pandemic. While that is meaningful progress, there is still much more to do. In what ways did funding for state and local governments, which was included in the American Rescue Plan, support job creation and economic growth in Arizona?

    - **Answer: The State and Local Fiscal Recovery Funds, established by the American Rescue Plan, provide vital resources for state and local governments to help turn the tide on the pandemic, address its economic fallout, and lay the foundation for a strong and equitable recovery. We know from the experience of the Great Recession that insufficient aid to state and local governments undermined and slowed the nation's recovery: this program takes that history to heart, ensuring state, local, Tribal, and territorial governments have the aid they need to chart a course for a faster and more inclusive recovery.**

      For example, according to Maricopa County in its annual Recovery Plan Performance Report required by the State and Local Fiscal Recovery Fund, the American Rescue Plan allowed Arizona to provide an immediate response to the pandemic with COVID-19 testing and vaccines for millions of people; assistance to small businesses, nonprofits, and food banks; assistance to households for rent and utility assistance; and hot spots and devices for schools to assist with remote learning. With the passage of ARPA, Maricopa County is able to make equitable investments using state and local funds to focus on areas disproportionately impacted by COVID-19 with the goal of easing the burden of individuals, families, and businesses while strengthening our infrastructure and social safety net.

2. One of the biggest ways we can continue to recover our economy is to get more Arizonans and Americans vaccinated against COVID-19. In what ways did funding for vaccines, which was included in the American Rescue Plan, support job creation and economic growth in Arizona?

    - **Answer: Increasing vaccination rates helps keep businesses open, get people back to work, and make our economy more resilient to the threat of COVID-19. Beating COVID-19 remains one of the most important ways to strengthen our economy.**

      Jurisdictions across Arizona are using their State and Local Fiscal Recovery Fund allocations to support vaccination and testing, activities that are both critical to saving lives and getting Arizonans back to work. For example, Phoenix and Pima County are using funds to help ensure disproportionately

impacted populations like communities of color will have access to mobile testing and vaccination services.

3. Some of Arizona's industries, like our local restaurants and the hospitality industry, are still recovering. How do you assess the Restaurant Revitalization Fund, which I wrote with Senator Wicker to help local restaurants in Arizona and around the country? Do you believe this program has been a difference-maker for small businesses?

    - **Answer: Treasury would refer questions on the Restaurant Revitalization Fund to our colleagues at the Small Business Administration.**

4. If Congress had not acted and passed the American Rescue Plan, what do you believe the economic recovery would have looked like in Arizona?

    - **Answer: In January 2021, as President Biden came into office, the nascent economic recovery had lost steam. In the fourth quarter of 2020, U.S. GDP had fallen over 2 percent for the year. The unemployment rate for January 2021 was 6.3 percent, and 233,000 jobs were added that month.**

      American families and workers, businesses, and state and local governments faced unprecedented difficulties. Too many American families could not pay for basic needs, and businesses—and especially small businesses—were struggling to remain open. These economic challenges created severe difficulties for state and local governments, who faced steer declines in revenue while responding to the pandemic and its economic fallout.

      That's why, immediately upon entering office, President Biden began working to address these interlocking challenges and provide the relief American families, businesses, and state and local governments needed through the American Rescue Plan.

      Today, aided by the American Rescue Plan, the economy is on the path to recovery, and the country is better poised to weather ongoing challenges like the Delta variant. The first benefit of these funds can be seen in what hasn't happened: simply knowing these funds were in their coffers has allowed state and local governments to avoid budget cuts and layoffs, preventing a repeat of the Great Recession. While much work remains, families, businesses, and state and local governments have much-needed relief, and the American Rescue Plan has laid the foundation for a strong, equitable recovery from the pandemic.

Questions for The Honorable Janet L. Yellen, Secretary, Department of the Treasury, from, Senator Mike Crapo:

1. Secretary Yellen, the OECD / G20 agreement on Pillar 1 and 2 states that a detailed implementation plan and any remaining issues will be finalized by October 2021. I am concerned Treasury's position on both pillars may put U.S companies at a competitive disadvantage, by increasing the global minimum tax on U.S. companies when no other country imposes a global minimum tax and by allowing countries to continue targeting U.S. companies with discriminatory unilateral measures.

    a. On Pillar 1, when do you plan to consult Congress on the details of the implementation plan? If the agreement is being finalized next month, have all OECD countries confirmed that they will remove their digital services taxes at that time?

        - **Answer: Pillar 1 is subject to ongoing international discussion, and what is needed to implement Pillar 1 will depend on the details of those discussions. I understand that Treasury regularly updates Congress on a bipartisan basis on the ongoing discussions on Pillar 1, and at the appropriate time will consult on the form a Pillar 1 agreement would take. My goal is to proceed with Pillar 1 implementation on a basis that both respects the prerogatives of the two branches of government and is bipartisan. I will work with Congress and my colleagues at Treasury and the State Department to determine the appropriate approach to implementing an agreement.**

          Regarding DSTs, all countries that joined the political agreement on October 8, 2021 have agreed to withdraw their DSTs upon implementation of Pillar 1. I am pleased to report that five of those countries – Austria, France, Italy, Spain, and the United Kingdom – entered into a further political agreement with the United States on October 21, 2021, to address their DSTs during the interim period, before Pillar 1 is implemented. That agreement will enable the USTR to terminate its section 301 actions against those countries. We are also actively engaged with the other two countries – India and Turkey – that joined the October 8 agreement while having DSTs or similar unilateral measures in place and outstanding section 301 actions regarding those measures. Finally, note that a standstill provision in the October 8 agreement provides that countries will not impose new DSTs or other relevant similar measures on any company during an interim period between October 8 and December 31, 2023, while the Pillar 1 multilateral convention is being finalized and brought into force.

b. On Pillar 2, have officials from China, one of our biggest foreign competitors, stated that they will implement a global minimum tax? If so, when? Doesn't it make sense to wait and see whether China and other countries actually enact a minimum tax, and at what rate, before significantly increasing the GILTI minimum tax, which only applies to U.S. companies?

- **Answer: Like 135 other countries, China joined the October OECD/G20 agreement. If China did not impose an income inclusion rule, under the agreement Chinese MNCs would be subject to the undertaxed payment rule like firms headquartered in any other jurisdiction.**

2. In response to Senator Toomey's question regarding implementation of the OECD Pillar One agreement, you responded that a tax treaty is "one way" Congress could implement or authorize Pillar One, which includes the reallocation of certain taxing rights between the United States and foreign jurisdictions.

a. Please describe the specific ways you believe Pillar One can be fully implemented without a tax treaty and the legal basis for those alternatives.

Answer: As I noted above, Pillar 1 is subject to ongoing international discussions that will need to be considered to determine the appropriate approach to implementing Pillar 1. I understand that Treasury regularly updates Congress on a bipartisan basis on the ongoing discussions on Pillar 1, and at the appropriate time we will consult on the form a Pillar 1 agreement would take. My goal is to proceed with Pillar 1 implementation on a basis that both respects the prerogatives of the two branches of government and is bipartisan. I will work with Congress and my colleagues at Treasury and the State Department to determine the appropriate approach to implementing an agreement.

b. How would domestic legislation be drafted to override all of our existing bilateral tax treaty obligations? Do you believe these changes could be made in reconciliation legislation? If so, please explain the legal basis for that conclusion.

- **Answer: As I noted above, Pillar 1 is subject to ongoing international discussions that will need to be considered to determine the appropriate approach to implementing Pillar 1. I understand that Treasury regularly updates Congress on a bipartisan basis on the ongoing discussions on Pillar 1, and at the appropriate time we will consult on the form a Pillar 1 agreement would take. My goal is to proceed with Pillar 1 implementation on a basis that both respects the prerogatives of the two branches of government and is bipartisan. I will work with Congress and my colleagues at Treasury and the State**

Department to determine the appropriate approach to implementing an agreement.

c. Without a treaty, how could legislation implement Pillar One in a manner that ensures U.S. companies would have access to binding dispute prevention and resolution, which is critical to reach fair outcomes?

- **Answer: As I noted above, Pillar 1 is subject to ongoing international discussions that will impact how Pillar 1 is implemented. Access of U.S. companies to binding dispute prevention and resolution should not depend on the form Pillar 1 takes or how it is approved by the United States. What will matter for access by U.S. companies to the dispute prevention and resolution process is that we have communicated to the other Pillar 1 Parties that we consider the United States to be bound and to consent to the applicable dispute settlement mechanism. I will work with Congress and my colleagues at Treasury and the State Department to determine the appropriate approach to implementing an agreement.**

d. When do you plan to engage and consult Congress regarding whether and how a tax treaty would be required to properly implement Pillar One?

- **Answer: My understanding is that there have been ongoing consultations with Congress and Committee members regarding the international negotiations. I am committed to meaningful consultation with Congress on Pillar 1 implementation.**

e. As an academic, Rebecca Kysar, Counselor to the Assistant Secretary of Tax Policy, has suggested that Senate tax treaty approval is, essentially, un-Constitutional because of the Origination Clause. Are Treasury's views on this matter in any way influenced by Ms. Kysar's viewpoint?

- **Answer: In Rebecca Kysar's current role she advises the Assistant Secretary of the Treasury for Tax Policy in a governmental capacity. The implementation of Pillar 1 will follow a robust interagency process and consultations with Congress.**

f. When do you plan to provide detailed information to Congress regarding Treasury's quantitative analyses of how Pillar One would impact American companies and the fiscal position of the United States relative to other countries?

- **Answer: As I noted above, Pillar 1 is subject to ongoing international discussions that will impact how Pillar 1 is implemented. While political agreement has been reached on the essential building blocks of the regime, a number of design features remain under discussion in the negotiations. A few of these design features – such as the breadth**

of scope exclusions, the method for elimination of double taxation, the details of a marketing and distribution safe harbor, and the treatment of withholding taxes – may materially impact American companies and the fiscal position of the United States relative to other countries. We are actively engaged in negotiating resolution of those design features to ensure the best result for American companies and the fiscal position of the United States. We are not in a position to provide hypothetical impact assessments while these matters remain under negotiation.

Questions for The Honorable Janet L. Yellen, Secretary, Department of the Treasury, from Senator John Kennedy:

1. Madam Secretary, my bipartisan bill, the Unclaimed Savings Bond Act, which included over 40 Senators last year, and which I, Senator Brown, our distinguished Chairman, and other Senators have reintroduced this year is an effort to turn over, the names, addresses and amounts owed to the bondholders of our states. The bill lets States take title to bonds for the express purpose of repaying the original bond owners — something States do very well.

   I am being told that Treasury is telling Congress my bill is unconstitutional.

   a. The bill honors the bond contract; it doesn't breach it. Nothing in the bill alters the bond contract. Treasury stays the debtor to the bond owner.

      i. Would you state for the record that Treasury is not opposing this bill on any Constitutional grounds or if Treasury is making such a claim, that you submit now, in writing, any constitutional violation claims so the committee can properly evaluate the claim?

         - **Answer: The bond contract is considered a public contract, as it is held between the United States and a non-federal party. The proposed Unclaimed Savings Bond Act of 2021 would unilaterally terminate the bond contract between the U.S. government and the bond owner, replacing the bond holder with the state as a party. Under the proposed legislation, "the ownership of an applicable savings bond may be transferred pursuant to a valid judgment of escheatment vesting a State with title to the bond." Accordingly, upon transfer of ownership to the state, the bond contract between the US Treasury and the current bond owner would be extinguished. The state would then become the new bond owner and hold a contract for redemption and payment with the U.S. Treasury, because it is not possible for the state and the original bond owner to hold title to a savings bond at the same time through escheatment. The U.S. government could therefore be liable for any breach of contract damages incurred by the bond owner as the result of this proposed legislation. In addition to a breach of contract claim, current bond owners could potentially bring suit against the United States arguing that the termination constituted a violation of the Takings Clause of the Fifth Amendment to the U.S. Constitution. Sovereign immunity has been waived in this instance by the Tucker Act and the Little Tucker Act, so the government could be exposed to potential liability.**

In addition, the proposed legislation raises other questions concerning potential claims against the government, including standing and damages issues. For example, it does not appear that the proposed indemnity clause provides sufficient coverage to avoid losses to the government.

2. Section 321(b) of the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act (title III of division N of Public Law 116-260) requires the Secretary of the Treasury to testify before the U.S. Senate Committee on Small Business and Entrepreneurship regarding the implementation of the Act and the amendments made by the Act no later than 120 days after enactment.

   The administration has approved 11,823,594 Paycheck Protection Program (PPP) loans for a total of $799.83 billion without the proper oversight of the Secretary of the Treasury. The Small Business Committee has not received updated PPP data since June 2021.

   On September 30, 2021, you testified at the House Financial Services Committee that over the last 7 months, your staff had trouble finding a date that works for you to appear before the Committee on Small Business and Entrepreneurship of the Senate and the Committee on Small Business of the House of Representatives.

   a. Please provide documentation detailing the conflicts your staff has provided to the House and Senate Small Business Committees prohibiting you from fulfilling your statutory obligation to testify before the Committee on Small Business and Entrepreneurship of the Senate and the Committee on Small Business of the House of Representatives.

      - **Answer: Congressional oversight is critically important to me, and I view the Small Business Committees as partners in our effort to serve the American people as we work to recover from the pandemic. Since March, I have testified before the House and Senate nine times and look forward to returning to the Hill in November for my quarterly CARES Act hearings. I will continue to carry out my duties consistent with my statutory obligations and, as always, work to make sure Congress and relevant Committees have the necessary information to carry out their critical oversight functions.**

   b. Will you commit to testifying before the Committee on Small Business and Entrepreneurship of the Senate before November 19, 2021?

      - **Answer: I am committed to providing the Committee the information it needs to carry out proper oversight of the Treasury, consistent with my statutory obligations.**

<u>Questions for The Honorable Jerome H. Powell, Chair, Board of Governors of the Federal Reserve System from Chairman Brown:</u>

1) **Chair Powell, you have voted to approve every merger during your time on the Board of Governors. Have these mergers negatively impacted Black and brown communities? Please identify where mergers have contributed to a loss of products or services, branch closures, and the racial wealth gap in those areas?**

The Federal Reserve takes seriously its responsibility to review bank merger and acquisition (M&A) proposals under the relevant statutory factors set forth in the Bank Holding Company Act and the Bank Merger Act. Under these statutes, the Federal Reserve is required to consider, among other things, the managerial resources of the organizations involved and the proposed combined organization. As part of its evaluation of the managerial factor, the Federal Reserve considers the involved institutions' records of compliance with laws and regulations, including those related to consumer protection. The Federal Reserve is also required to consider the effects of a bank M&A proposal on the convenience and needs of the communities to be served by the resulting financial institution, including communities of color. In evaluating the convenience and needs factor, the Federal Reserve considers both whether the involved institutions are currently helping to meet the credit needs of their communities as well the potential effects of the proposal on these communities. This includes considering the records of the involved institutions under the Community Reinvestment Act (CRA), their consumer compliance records, and the results of their recent fair lending examinations. The Federal Reserve will not approve an M&A application by a bank that had a less than satisfactory overall CRA rating.

While the federal banking agencies do not have the legal authority to prevent banks from closing branches or to require banks to establish branches in certain locations or offer certain products and services, the Federal Reserve considers the impact of anticipated branch closures or changes in the services or products offered by the resulting institution when considering the convenience and needs factor. Particular attention is paid to

- the number of anticipated branch closures, whether there are a disproportionate number of closures in low- and moderate-income (LMI) and majority-minority areas, and plans to mitigate the impact of proposed closures on these areas;
- public comments and the views of the applicant's primary regulator regarding proposed closures or product or service changes, including any fair lending or CRA implications;
- the institutions' records of branching and offering responsive products and services, as detailed in their most recent CRA evaluations and fair lending examinations; and
- how the products and services to be offered by the resulting institution would assist in meeting the convenience and needs of the communities affected by the transaction.

Outside of the M&A process, the Federal Reserve's fair lending supervisory and enforcement program reflects our commitment to promoting financial inclusion and ensuring that the financial institutions under our jurisdiction fully comply with the fair lending laws that we have the authority to enforce. Simply put, racial discrimination has no place in a fair and transparent financial marketplace, including mortgage or other lending. We evaluate fair lending risk at every consumer compliance examination of a state member bank and supervise for consumer protection laws that promote fairness and transparency in the provision of banking services. Pursuant to the Equal Credit Opportunity Act, if the Federal Reserve has reason to believe that a bank has engaged in a pattern or practice of discrimination, the matter is referred to the U.S. Department of Justice (DOJ). Federal Reserve referrals have resulted in DOJ public actions in critical areas that affect communities of color, such as redlining and mortgage-pricing discrimination. In addition, beyond the public referrals to DOJ, from 2018 to 2020, the Federal Reserved issued 146 supervisory findings where we did not find a violation of law, but were still concerned about potential fair lending risk and directed banks to take corrective actions to strengthen their compliance management systems.

The impact of banks' activities on communities of color is an important topic that requires thoughtful study, consideration, and action. The Federal Reserve plays a vital role in data collection and research on racial and economic disparities, and we are committed to improving our understanding of the impact of banks' activities on communities of color and the persistent racial and ethnic wealth gaps.[1] This research has, for example, found that the number of branches nationwide has generally been declining since 2009, though some communities are experiencing increases in branches while others are experiencing declines. The Federal Reserve is aware of and concerned about the disparities in banking access, and we continue to monitor branch closure trends and their impact on local communities, including communities of color.

Despite the decline in the number of nationwide bank branches over the past decade, the total unbanked and underbanked population in the United States has continued to decline and the proportion of the unbanked and underbanked Black and Hispanic population has declined even more dramatically. The percentage of the Black population that is unbanked declined from 38 percent in 1995 to 13 percent in 2020, and the percentage of the Hispanic population that is unbanked declined from 30 percent in 1995 to 9 percent in 2020. There also has been a significant reduction in the number of underbanked individuals of color in recent years, with the percentage of the Black population that is underbanked declining from 41 percent in 2016 to 27 percent in 2020 and the percentage of the Hispanic population that is underbanked declining from 28 percent in 2016 to 21 percent in 2020.[2] While these trends are positive, the number of unbanked and underbanked individuals of color remains high and the racial wealth gap also remains stubbornly high, and more could be done to understand and address these issues.[3]

---

[1] *See* Kevin Moore and Karen Pence, Board of Governors of the Federal Reserve System, *Improving the Measurement of Racial and Ethnic Disparities in the Survey of Consumer Finances* (June 21, 2021), available at https://www.federalreserve.gov/econres/notes/feds-notes/improving-the-measurement-of-racial-and-ethnic-disparities-in-the-survey-of-consumer-finances-20210621.htm; Symposium, *Racism and the Economy*, available at https://www.minneapolisfed.org/policy/racism-and-the-economy; https://fedcommunities.org/data/closethegaps/.

[2] *See, e.g.*, Board of Governors of the Federal Reserve System, *Report on the Economic Well-Being of U.S. Households in 2020* (May 2021), available at https://www.federalreserve.gov/publications/2021-economic-well-being-of-us-households-in-2020-banking-and-credit.htm.

[3] Neil Bhutta et al., *Disparities in Wealth by Race and Ethnicity in the 2019 Survey of Consumer Finances* (Sept. 28, 2020), available at https://www.federalreserve.gov/econres/notes/feds-notes/disparities-in-wealth-by-race-and-ethnicity-in-the-2019-survey-of-consumer-finances-20200928.htm.

Because a bank's CRA performance is taken into account in our review of bank M&A proposals, we should also note the Federal Reserve's ongoing work on strengthening CRA supervision to support the core purpose of the statute. Last year, the Federal Reserve released an Advance Notice of Proposed Rulemaking (ANPR) on strengthening CRA regulations, and the ANPR discusses the importance of this law in addressing inequities in credit access and meeting the needs of LMI communities.[4] In July, the federal banking agencies took a significant step forward by announcing that we are working together on strengthening CRA regulations,[5] and I believe that the Board's ANPR will serve as a sound framework for our interagency efforts.

2) **Chair Powell, you recently said that monetary policy is a blunt tool, and the racial disparities in our economy need to be solved by education policies. Yet, studies have shown that even when controlling for education level, race and gender-based disparities persist. What are the factors that make the average Black individual with a college degree have the same wealth as a white individual with no higher education? Why has the gender pay gap widened between men and women with college degrees? What is the Fed doing to help address these disparities?**

The racial wealth gap for individuals is partly due to the racial income gap: on average, Black individuals earn less than similarly-educated white individuals and thus have fewer resources to build wealth over time. Research has not been able to explain this earnings gap with observable characteristics of individuals. Lower homeownership rates among Blacks, which may stem from lower incomes and from less access to mortgage credit, likely also contributes to the racial wealth gap.

Recent research on the gender pay gap points to gaps being particularly large at the high end of the income distribution.[6] For example, data on Fortune 500 companies shows that women comprise nearly half of all managers but only 14.3 percent of executive officers, and just 3.8 percent of CEOs. For highly skilled women, gaps tend to emerge midway through careers, with some research associating the gap beginning with women working shorter hours and taking time off for childbirth. Still, even controlling for these influences, pay discrepancies remain, suggesting the possible influence of discrimination.

By pursuing maximum employment and stable prices, the Federal Reserve can maximize the job opportunities for all individuals, as very strong labor markets tend to lead to smaller labor market disparities across demographic groups. Stable and gainful employment is, perhaps, the most important factor allowing individuals to build wealth. Our robust enforcement of laws prohibiting discrimination in access to credit can also help Black individuals, and members of other minority groups, get access to the credit needed to acquire homes and build home equity.

---

[4] As the Board noted in the ANPR, "the [CRA] and its implementing regulations provide the agencies, regulated banks, and community organizations with the necessary framework to facilitate and support a vital financial ecosystem that supports LMI and minority access to credit and community development." Community Reinvestment Act, 85 *Fed Reg*. 66410, 66412 (October 19, 2020).

[5] *See* https://www.federalreserve.gov/newsevents/pressreleases/bcreg20210720a.htm.

[6] See, for example, Blau and Kahn (2017) "The Gender Pay Gap: Extent, Trends, and Explanations," Journal of Economic Literature, vol. 55, no.3.

<u>Questions for The Honorable Jerome H. Powell, Chair, Board of Governors of the Federal Reserve System from Ranking Member Toomey:</u>

1) **On several occasions, you have distinguished climate scenario analysis from traditional stress tests and suggested that the Federal Reserve would not seek to incorporate climate scenarios into its stress tests. There appears to be agreement on this point, as Governor Brainard acknowledged that "scenario analysis is distinct from our traditional regulatory stress tests."[1] Given the short, nine-quarter time horizon of the Federal Reserve's stress tests, it would be inappropriate to use this exercise to assess climate-related risk. I am concerned, however, that certain Federal Reserve officials are advocating for incorporating climate scenarios into the stress tests. For example, last month the Federal Reserve Bank of New York (FRBNY) published a staff report on climate stress testing[2], which appears to go against the statements that you and Governor Brainard have previously made about this subject. Does it remain your position that climate scenario analysis and stress tests should remain separate given the significant differences in purpose and time horizon?**

   [1] https://www.federalreserve.gov/newsevents/speech/brainard20210218a.htm.
   [2] https://www.newyorkfed.org/medialibrary/media/research/staff_reports/sr977.pdf.

Climate scenario analysis will likely prove to be a useful tool that will help the financial sector and the regulatory agencies better understand the physical and transition risks of climate change. The Federal Reserve is developing a program of scenario analysis to evaluate the potential economic and financial risks posed by different climate outcomes that is distinct from our existing regulatory stress testing regime. These tools serve different objectives and seek to measure risks over different time horizons. Regulatory stress tests are used to assess capital adequacy under specific shocks in the short term and have specific consequences for capital and supervisory ratings. By contrast, climate-related scenario analysis is typically longer-term and exploratory in nature and used to understand and evaluate the potential impact of climate change on a bank's risk profile and strategy across a range of plausible scenarios. Given some of the challenges and the high degree of uncertainty associated with the measurement of climate-related risks, we believe scenario analysis is a more appropriate and effective tool as we work to promote the safety and soundness of supervised institutions and the stability of the broader financial system.

2) **I am also concerned that the recent FRBNY staff report on climate stress testing mentioned above is predicated on numerous extreme and implausible assumptions, including a 50% drop in the return on a "stranded asset portfolio," which is comprised predominantly of coal exposures and a short position in the S&P 500, over a six-month period. The parameters of this paper raise concerns that it was intentionally constructed to overstate the climate-related risk of in-scope banks. As the Federal Reserve continues to study climate-related risk, do you commit that research informing policy decisions will be subject to public comment to ensure its accuracy and objectivity?**

At the Federal Reserve we view climate change risk through the lens of our existing mandates and authorities, particularly those relating to the supervision of financial institutions and the stability of the broader financial system. From a supervisory perspective, our primary focus is to evaluate whether banks operate in a safe and sound manner and manage all material risks, including those related to climate change. From a financial stability perspective, we are working rigorously to identify and measure links between climate change and financial stability, including by investigating how climate change can increase financial sector vulnerabilities and looking for climate-related amplification channels.

We are currently working to assess firms' responses to climate-related risks and building our own analytical capacity. In so doing, we are engaging with a broad range of external stakeholders, including banks, industry groups, credit rating agencies, nonprofits, academics, other central banks, and supervisory authorities. It is critical from our perspective to first support our analytical efforts and only then determine an appropriate path forward from a policy perspective. We are taking a careful, thoughtful, and transparent approach to this work, and we will engage with all our external constituencies along the way.

3) **Earlier this year, the temporary change to the supplementary leverage ratio (SLR) expired and, as a result, banks cannot exclude central banks deposits and U.S. Treasury securities from the denominator of the SLR. On March 19, 2021, the Federal Reserve announced that it would "soon be inviting public comment on several potential SLR modifications."[3] Over six months later, the Federal Reserve still has not issued this proposal. At the same time, the Federal Reserve is purchasing securities at a rate of $1.4 trillion per year, flooding the banking system with reserves. I am concerned that without adjustments the SLR is negatively affecting banks' ability to accommodate customer deposits and intermediate in Treasury markets. Do you still expect to issue a proposal to address this critical issue? What is the timing of any such proposal?**

   [3] https://www.federalreserve.gov/newsevents/pressreleases/bcreg20210319a.htm.

The Board aims to ensure that risk-based capital and leverage requirements function as intended with leverage requirements acting as a complement and backstop to the risk-based capital requirements. We are closely monitoring the capital framework, including the supplementary leverage ratio requirement, and considering ways to adapt the supplementary leverage ratio to ensure that it operates as a backstop as intended, particularly in light of the current higher-reserves environment. The Board would take appropriate actions to ensure that any changes to the supplementary leverage ratio requirement would not erode the overall strength of the capital requirements.

4) **As the Federal Reserve, FDIC, and OCC prepare to implement the remaining elements of the Basel III capital framework, I am concerned that more stringent rules will apply to U.S. banks than their international peers, creating a competitive disadvantage. For example, there have recently been reports that regulators in France, Germany, and other European Union (EU) countries are seeking to implement a less stringent version of Basel III.[4] I have long been concerned about outsourcing regulation of U.S. banks to foreign organizations, as well as the overly burdensome capital requirements that result from aspects of the Basel framework.**

a. If non-U.S. jurisdictions propose a less stringent version of Basel III, do you believe U.S. regulators should adjust their rules accordingly to maintain the international competitiveness of U.S. banks?

b. How could disparate rules across jurisdictions impact the cost of credit to U.S. consumers?

[4] https://www.ft.com/content/0122b5c4-1cd2-4c17-aaee-590f10205543.

We are working closely with the Federal Deposit Insurance Corporation and Office of the Comptroller of the Currency to implement the remaining elements of the Basel III capital framework for the largest banking organizations, as appropriate for U.S. financial stability and the safety and soundness of the U.S. banking system. Implementing the Basel III reforms in the U.S. would help promote competitive equity between the large U.S. banking organizations and their foreign peers, produce more robust and internationally consistent capital requirements, and make other improvements to the U.S. capital rule based on observations from the global financial crisis. Any revisions to the U.S. capital rule will be consistent with the Administrative Procedure Act, which generally requires notice and consideration of public comments prior to any changes taking effect.

5) As institutions transition away from the London Inter-Bank Offered Rate (LIBOR), many banks – particularly regional and community banks – have expressed concern that the Secured Overnight Financing Rate (SOFR) is not well suited for lending markets because it is a credit risk-free benchmark.[5] Although regulators did not recommend a specific credit-sensitive rate for use in lending products, in November 2020, the Federal Reserve, Federal Deposit Insurance Corporation, and Office of the Comptroller of the Currency issued a statement confirming that a bank "may use any reference rate for its loans that the bank determines to be appropriate for its funding model and customer needs" and that "use of SOFR is voluntary."[6] Certain regulators, however, have made statements publicly criticizing specific credit-sensitive rates. In addition, a Federal Reserve official recently stated that if a bank uses a non-SOFR rate, "that means extra work for you to make sure you're demonstrably making a responsible decision."[7] These statements seem to directly contradict the agencies' guidance, as well as your previous statements. Will you commit to ensuring benchmark rate choice as institutions transition away from LIBOR?

[5] https://www.newyorkfed.org/medialibrary/media/newsevents/events/markets/2020/credit-sensitivity-letters.pdf.
[6] https://www.federalreserve.gov/supervisionreg/srletters/SR2025a1.pdf.
[7] https://www.newyorkfed.org/newsevents/speeches/2021/hel210915.

We have not changed our November 2020 guidance. A supervised institution may use SOFR for its loans, but it may also use any reference rate for its loans that the supervised institution determines to be appropriate for its funding model and customer needs.

On October 20, 2021, the Federal Reserve and other agencies issued a statement that described relevant considerations for assessing alternative rates. The statement notes that supervised institutions should understand how their chosen reference rate is constructed and be aware of any fragilities associated with that rate and the markets that underlie it.[1]

6) **The Federal Reserve has purchased roughly $230 billion in Treasury Inflation Protected Securities (TIPS) since the onset of the pandemic.[8] To what extent does this distort our ability to perceive the market's expectations of inflation?**

   [8] https://www.federalreserve.gov/releases/h41/.

The difference between the yields on conventional (nominal) Treasury securities and Treasury Inflation Protected Securities (TIPS), referred to as "inflation compensation," is often used as a source of information to proxy for investors' inflation expectations. However, this measure is imperfect because it embeds various risk premiums that compensate investors for uncertainty about future inflation and other risks, such as the relative illiquidity of TIPS compared with conventional Treasury securities.

With that in mind, we do not believe that the Federal Reserve's asset purchases have substantially reduced the information content of market-based measures of inflation compensation. The Federal Reserve's asset purchases have been distributed across maturities and categories roughly in line with the outstanding securities in each group as a share of total Treasury debt outstanding. Moreover, the Federal Reserve's purchases of TIPS following the onset of the pandemic helped ensure the smooth functioning of the TIPS market, and therefore reduced the substantial TIPS liquidity premium that had emerged. Outside of episodes of illiquidity, purchases of both conventional Treasury securities and TIPS likely lower the yields on both types of securities. Finally, while estimates of the risk premium component of inflation compensation are certainly higher now than prior to the pandemic, that shift seems likely to primarily reflect changing perceptions among investors about the risks around inflation.

7) **On October 1, 2021, inflation as measured by Personal Consumption Expenditures reached 4.3% year over year. What is the Federal Reserve's view on the current "overshoot," and what is the timeframe over which it assesses its flexible average inflation target?**

As I noted in my press conference remarks following our most recent Federal Open Market Committee (FOMC) meeting, inflation remains well above our longer-run goal of two percent. Supply-and-demand imbalances related to the pandemic and the reopening of the economy have continued to contribute to elevated levels of inflation. In particular, bottlenecks and supply constraints are limiting how quickly production can respond to higher demand in the near term. These problems have been larger and longer lasting than anticipated, exacerbated by waves of the virus. While the drivers of higher inflation have been predominantly connected to the dislocations caused by the pandemic, price increases have now spread to a broader range of goods and services. Wages have also risen briskly, and we are attentive to the risks that persistent real wage growth in excess of productivity could put upward pressure on inflation.

---

[1] *See* SR Letter 21-17.

Like most forecasters, we continue to expect inflation to decline over the course of the year as some of the supply side factors contributing to inflation begin to fade.

The Federal Reserve is strongly committed to achieving our goals of maximum employment and stable prices. Our decisions about appropriate monetary policy reflect a broad array of considerations. While we will steadfastly seek to achieve a 2 percent inflation rate over time, the FOMC has determined it is important to maintain flexibility to respond to incoming information and therefore has not set a specific timeframe over which it will average inflation readings.

8) SEC Chair Gary Gensler has publicly stated that potential reforms are need for the Treasury markets. Do you agree and, if so, which agency will take the lead in further reform?

Given the importance of Treasury markets to the nation, it is incumbent to ensure that the structure of these markets can meet current and future needs. The Federal Reserve is an active participant in the Interagency Working Group (IAWG), and within that context Federal Reserve staff is analyzing a range of potential reforms and whether they could help to improve Treasury market functioning in an effective manner. Many of these reforms, if they are pursued, would most naturally fall under the remit of other agencies, such as the Securities and Exchange Commission or Department of the Treasury, although we stand ready to offer our support.

9) SEC Chair Gary Gensler has suggested central clearing of Treasury securities as a potential reform. What, if any, other reforms to the regulation of the Treasury markets should be considered?

In addition to central clearing, the IAWG agencies are evaluating a number of other potential reforms including improving the availability of data both to the official sector and the public, assessing issues related to market structure and the resilience of intermediation, and examining potential reforms to the transparency and oversight of Treasury-market trading venues.

10) Earlier this year, the Federal Reserve proposed to require certain depository institutions to report certain transaction information regarding Treasury securities on the Trade Reporting and Compliance Engine (TRACE). Please provide an update on the expected timeline for completion of this proposal.

The Board has approved a final rule, which gave required banks until September 1, 2021, to begin reporting their Treasury and Agency debt and mortgage-backed securities transactions through the Financial Industry Regulatory Authority's Trade Reporting and Compliance Engine reporting system.

11) As you know, there are now openings for President of the Dallas and Boston Federal Reserve banks. Will you commit not to interfere with the selection process, and to ensure that selection is isolated from outside political pressure?

The process for filling the president positions of the Federal Reserve Banks (Reserve Banks) is outlined in the Federal Reserve Act. In keeping with the intent of Congress, the process was designed to reflect both private-sector and public-sector characteristics, and also balances the role of the Board of Governors in Washington and the Reserve Bank boards whose members are drawn from the Districts that they serve.

The process for selecting presidents begins with the Reserve Bank's board of directors, who form a search committee composed of Class B and C directors (those directors who are not affiliated with a supervised entity). The search committee hires a search firm to assist in conducting a robust, nationwide search for highly qualified candidates from inside and outside the Federal Reserve System and from a broad, diverse slate of backgrounds. To improve transparency in the Reserve Bank president search process, additional search committee efforts have included outreach to stakeholders and the public for feedback, input, and nominations. Reserve Banks have offered webinars open to the public and developed dedicated websites, which explain the search process in detail. Once a final candidate for the president position has been identified, the Reserve Bank's Class B and C directors will appoint the candidate, subject to the subsequent approval of the Board.

On February 9, 2022, the Federal Reserve Bank of Boston announced Dr. Susan M. Collins as its next president after following this process. The final candidate for the Dallas vacancy has not yet been announced.

12) What are the more prominent benefits of a central bank digital currency? What are the largest weaknesses?

For the past several years, the Federal Reserve has been exploring the potential benefits and risks of a central bank digital currency (CBDC) from a variety of angles, including through technological research and experimentation. The benefits and weaknesses of a central bank digital currency are highly dependent on its design. The Board has not made any decisions on what form a CBDC would take or, more importantly, whether to issue a CBDC. Moreover, the Federal Reserve does not intend to proceed with issuance of a CBDC without clear support from the executive branch and from Congress, ideally in the form of a specific authorizing law.

Potential benefits to issuing a CBDC include meeting the future needs of the payment system, improving cross-border payments, supporting the international role of the dollar, promoting financial inclusion, and ensuring the public's continued access to safe central bank money. Potential risks and policy considerations include impact to the financial sector (specifically commercial banks), the cost and availability of credit, safety and stability of the financial system, impact on monetary policy implementation, protecting consumer privacy, prevention of financial crimes, and cyber resilience. The Federal Reserve Board is committed to hearing a wide range of voices and welcomes comment from all stakeholders on the questions posed in the recently published discussion paper.

13) Does the Federal Reserve believe that privately issued stablecoins should be allowed to co-exist with any government backed digital currency?

With respect to any possible CBDC, the Board's key focus is on whether and how a CBDC could improve an already safe, effective, dynamic, and efficient U.S. domestic payments system, and whether a CBDC could provide those improvements more effectively than alternative methods. It is important that any potential CBDC could serve as a complement to, and not a replacement of, cash and current private-sector digital forms of the dollar, such as deposits at commercial banks.

The Board's recently issued discussion paper reflects the Board's long-standing recognition of the important role that the private sector plays in the U.S. payment system and support of responsible innovation. Payments innovations, including stablecoins, have the potential to improve efficiencies, increase competition, lower costs, and foster broader financial inclusion, and properly regulated and supervised stablescoins could co-exist with a CBDC, should one be issued.

However, stablecoins vary widely in their design and their terms and conditions. Depending on their specific arrangements, stablecoins may pose risks to U.S. consumers, financial institutions, and the broader payment system, especially if they grow to a large scale. To address those risks, the Federal Reserve is working closely with other regulators to identify potential policy and supervisory gaps related to emerging forms of payment and develop an appropriate response, including through the President's Working Group on Financial Markets.

14) Which existing statutes does the Federal Reserve believe provide the strongest argument that it has the authority to issue a central bank digital currency?

If any decision is made to proceed with a CBDC, it would be ideal if Congress provides clear authorizing legislation. Currently, section 16 of the Federal Reserve Act authorizes the issuance of Federal Reserve notes (cash) but describes Federal Reserve notes as physical instruments.

15) In May 2021, the Federal Reserve planned to publish a discussion paper in the summer that would explore digital payments and the possibility of a U.S. central bank digital currency. Does the Federal Reserve still plan to publish this paper, and can it provide a better estimate on its publication?

The Board released its discussion paper on January 20, 2022.