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CARES ACT OVERSIGHT OF TREASURY AND THE FEDERAL RESERVE: BUILDING A RESILIENT ECONOMY

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

NOVEMBER 30, 2021

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C O N T E N T S

TUESDAY, NOVEMBER 30, 2021

WITNESSES

ADDITIONAL MATERIAL SUPPLIED FOR THE RECORD

CARES ACT OVERSIGHT OF TREASURY AND THE FEDERAL RESERVE: BUILDING A RESILIENT ECONOMY

TUESDAY, NOVEMBER 30, 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 G50, Dirksen Senate Office Building, Hon. Sherrod Brown, Chairman of the Committee, presiding.

OPENING STATEMENT OF CHAIRMAN SHERROD BROWN

Chairman BROWN. The Committee on Banking, Housing, and Urban Affairs will come to order. Today's hearing is in the 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. Please click the Mute button to minimize background noise. All of you have been through this before so I do not think I need to lay out all that we are doing.

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

Last week, many Americans sat down with family and friends to celebrate Thanksgiving. I start with taking a moment to thank the workers that made that possible, many of whom did not get the day off—farm workers, grocery store workers, restaurant workers, auto workers, delivery workers, longshore workers, and so many others who touch our lives. These are the people who make our economy work. It is something that the Treasury Secretary and the Fed Chair need to always keep in mind.

Under the Biden-Harris administration, our economy is bouncing back. It is getting stronger every day. We created 5.6 million jobs this year. The unemployment has dropped to 4.6 percent, and weekly unemployment claims dropped to under 200,000 last week, the lowest level not just since the pandemic began, but in over 50 years, since 1969.

Of course raw jobs numbers alone do not tell the whole story. They do not tell you how good the job is, what kind of wage it pays.

And on that front, the news is even better. Workers are starting to finally get a little bit more power in our economy. Last year, corporations called their workers essential, and then many turned around and cut hazard pay—if they ever offered it at all—and cut corners on safety, to make sure their profits did not take a hit. Or worse, they laid off loyal, long-time employees in the midst of a public health crisis.

They cannot make those record profits without someone to actually do the work, though. Today, American workers are demanding what they have earned. After years of stagnant wages, shrinking benefits, and no control over their schedules, workers are standing up for themselves and for each other, and asking for their fair share of the profits they create.

We just saw the United Auto Workers win better pay and better retirement benefits after a 5-week strike of John Deere. It was good for non-union employees too—this is typical—who got a bump in pay too.

For too long, corporate greed has kept paychecks down and prices up. Corporations "cut costs" at workers' expense to juice quarterly earnings numbers, even when they are already plenty profitable. Executives reward themselves with record profits and stock buybacks, while arguing they cannot afford to pay higher wages to anyone else, or cannot afford to lower prices.

During a once-in-a-generation global pandemic, despite the supposed "labor shortages" and inflation fears, Wall Street banks and corporations still managed to rake in record profits. Profits at the biggest U.S. companies shot above $3 trillion—3,000 billion dollars—this year, and the margins keep growing. And now, while working families are just starting to get back on their feet, megacorporations would rather pass higher costs onto consumers than to cut into their already large profits.

To continue the progress we have made, we need to rethink that old system.

The Biden administration is creating jobs and bringing down costs for families to build a resilient economy for the long run. The biggest costs families face have been rising for years, in many cases decades—housing, health care, prescription drugs, childcare, preschool. The Democrats' agenda will bring down all these costs.

We passed the American Rescue Plan, which got shots in arms and money in pockets, including the Child Tax Credit, the largest tax cuts for working families ever that has helping millions of families afford childcare and keep up with the cost of living. Ninety percent of families in Pittsburgh and Cleveland and Toledo and Philadelphia, 90 percent of families with children under 18 are getting at least a $3,000 tax cut.

We passed the bipartisan infrastructure bill to upgrade our ports and transit systems, to revitalize manufacturing here in the United States, to secure supply chains, to create millions of good jobs.

Two weeks ago, the House passed Build Back Better which will bring down childcare, housing, health care and other household costs, and extend the child tax credit, the biggest tax cut, as I said.

Now, the Senate must act.

The ongoing pandemic has also exposed longstanding weaknesses in our supply chain. Global supply chain disruptions and increased demands as our economy rebounds are causing higher prices in certain sectors.

Secretary Yellen and Chair Powell are keeping an eye on this, and the more we can get the virus under control and understand its variants, the faster we will see these disruptions subside. We are already seeing some progress.

The bipartisan infrastructure plan's investment in our ports will help speed up our supply chains in the long-run. Passing my Supply Chain Resiliency Act would further reshore and strengthen U.S. supply chains.

There is also an even simpler, short-term fix available. Corporations could—could—lower their prices. Executives could get a slightly smaller pay bump this year and stock buyback plans could be put on hold, instead of raising costs for customers. Again, that is the choice they face. They could take a slightly smaller pay bump this year. They could cut back on their stock buyback plans, actually put them on hold, instead of raising costs for consumers.

There is no inexorable law that says profits for those at the top must continue to rise and rise and rise in perpetuity, even at the expense of everyone and everything else in the economy. Corporations can get away with it—we know this. I have had these conversations with Chair Powell and Secretary Yellen. They can get away with it because they have too much power in our economy.

That makes it all the more vital that we not pull back on empowering workers. The Fed cannot pump the brakes on our economic recovery too soon, before workers get a chance to fully rebound, and I mean all workers. Women, who finally started to make significant job gains last month, were disproportionately forced out of the labor market as many took on the extra jobs of full-time caregiver and homeschool teacher. The Black unemployment rate is still twice that of White workers. That is increasingly unacceptable.

A resilient economy is an economy where full employment means everyone can get a job—a good job, that pays a living wage and allows you to build a career and raise a family. And it is an economy where everyone shares in the benefits of growth, and where our progress is not gambled away by Wall Street greed.

Instead of doing Wall Street's bidding, we all—and I include the Fed, the Treasury Department, and this Congress—we all need to support the institutions that work at serving their neighbors and contributing to the real economy. That means supporting small business and creating paths to home ownership. That means supporting institutions like MDIs and CDFIs that serve communities that the banks ignore. That means making sure workers have power in our economy and share in the prosperity they create.

Corporations and their allies in this building—and there are a whole lot of them—want you to believe that we have to choose between high wages and low prices. That is a false choice. We can have an economy where you earn a living wage and you can afford the things you need to live—childcare, health care, education, housing, and groceries. Our economy can be a reflection of our values as Americans, one that recognizes every worker's potential, from all walks of life and from every corner of our country.

President Biden recently announced his intention to renominate Chair Powell to lead the Federal Reserve, and Governor Lael Brainard to be the Vice Chair. They have helped lead our economy through the pandemic, and I will continue to work with both of them, and the next Federal Reserve nominees that reflect the diversity, in thought, in gender, and race, the diversity of the Secretary and the Chair on how they plan to build a resilient economy that works for everyone.

Senator Toomey.

OPENING STATEMENT OF SENATOR PATRICK J. TOOMEY

Senator TOOMEY. Thank you, Mr. Chairman. Secretary Yellen and Chairman Powell, welcome back to the Committee. Chairman Powell, congratulations on your renomination. Despite our several disagreements, I look forward to supporting your confirmation.

When the pandemic hit in 2020, Chairman Powell acted swiftly to stabilize financial markets and the economy. He also implemented a number of sensible regulatory reforms that helped to spur economic growth. And for those who would criticize those efforts, I suggest they look at the past 2 years. Our economy, and our financial system, experienced a very severe, real-world stress test during the worst days of the pandemic, and we came out of it with the best capitalized banking system in American history.

While I support Chairman Powell's renomination, I am very concerned about whom President Biden may nominate to fill other seats on the Fed Board given some of the radical financial regulators he has nominated so far. Just consider his radical nominee to serve as the Comptroller of the Currency, the Nation's top banking regulator.

Members of the Fed Board ought to have exceptional qualifications and an appreciation for the Fed's narrow statutory role on monetary policy and banking supervision. We need Fed nominees who are focused not on social policy, but rather the alarming bout of inflation that we are currently experiencing. Inflation is at a 31-year high. Just last month, the consumer price index increased by 6.2 percent year over year.

Price hikes are everywhere, from the cost of a Thanksgiving meal, which rose by 14 percent over last year, to the pump, where gas has reached as high as $6 a gallon in some places.

Inflation is a tax that is eroding Americans' paychecks every day. Even though wages are growing, inflation is growing faster and that is causing workers to fall further and further behind.

I have been warning about the risks of higher and more persistent inflation since January. Unfortunately, the Fed has decided to continue its really emergency monetary policy, adding fuel to the inflationary fire, long after the economic emergency had passed.

Earlier this month, I was glad to see the Fed finally announce a long-overdue taper of its bond-buying program. Quantitative easing should be used in emergencies only, and we are well past the need for such support.

Our economy took a nosedive in the second quarter of last year, but by the third quarter of 2020, it had largely recovered. And yet here we are in November 2021, and the Fed is still buying more than $100 billion in bonds each month.

The Fed should have started tapering nearly a year ago. But instead it is expected to continue buying bonds through next June. And on interest rates, which are currently near zero, the Fed is still maintaining a wait-and-see approach.

I am somewhat relieved that Chairman Powell has recently spoken about the heightened risks of higher and more persistent inflation and has indicated his determination to control it.

Unfortunately, the Biden administration and many of our Democrat colleagues in Congress are not willing to do their part to limit inflation. Instead, they are exacerbating the problem and then blaming inflation on their usual suspects—greedy corporations.

Apparently, some of my colleagues believe that companies were for years generously leaving money on the table and only now have thought to raise prices to maximize profits. Well, this is a cynical fib meant to distract from the fact that congressional Democrats' extremely liberal policies are contributing to the price hikes hitting Americans' wallets.

Just take energy prices, for example. President Biden kicked off his presidency by taking measures to curb our Nation's energy supply. He terminated construction of the Keystone Pipeline, a tremendous source of oil. He placed an indefinite ban on new oil and gas leases on Federal land.

Meanwhile, on the demand side, the Administration and Democrats in Congress have propped up demand for energy with their March 2021 $1.9 trillion stimulus bill. It is no wonder then that Americans are seeing skyrocketing energy prices. When you decrease supply, and then subsidize demand, prices go up. That is basic economics.

Unfortunately, the Administration has not learned its lesson. It is still pushing a multitrillion-dollar reckless tax-and-spend plan that will contribute to more inflation and damage our economy. Its plan is a massive expansion of the welfare State, and it will be partially paid for by large tax increases that will hurt American families and make the U.S. a less competitive place to do business.

The intent of this plan is to fundamentally transform the relationship between the Federal Government and the middle class. It is about socializing many ordinary responsibilities that middle-income families have always assumed, including by providing free preschool, free paid leave, and free childcare, just to name a few.

Democrats are attempting to hide the unprecedented enormity of this tax-and-spending spree through budget gimmicks. According to the nonpartisan Penn-Wharton budget model, the House version of the Build Back Better plan will cost $4.6 trillion over 10 years if the bill's temporary provisions are made permanent, as the Democrats plan and hope. As Senator Manchin has noted, Democrats are using, quote, "shell games," end quote, to hide the true cost of this inflation.

I hope that Democrats will reconsider their misguided efforts to double down on the reckless spending that has contributed so much to the highest inflation that Americans have experienced in 31 years.

Chairman BROWN. Thank you, Senator Toomey.

I will introduce today's witnesses. We will hear from Treasury Secretary Yellen, Federal Reserve Chair Powell, on their agencies' continued actions to recover from the pandemic and build a resilient economy that works for all Americans. Thank you both for your service. Congratulations again to you Chair Powell, and thank you for your testimony today.

Madam Secretary, if you would begin. Thank you.

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.

November has been a very significant month for our economy, and Congress is a large part of the reason why. Our economy has needed updated roads, ports, and broadband networks for many years now, and I am very grateful that on the night of November 5, members of both parties came together to pass the largest infrastructure package in American history.

November 5th, it turned out, was a particularly consequential day because earlier that morning we received a very favorable jobs report—531,000 jobs added. It is never wise to make too much of one piece of economic data, but in this case it was an addition to a mounting body of evidence that points to a clear conclusion: Our economic recovery is on track. We are averaging half-a-million new jobs per month since January, and GDP now exceeds its prepandemic levels. Our unemployment rate is at its lowest level since the start of the pandemic, and our economy is on pace to reach full employment 2 years faster than the Congressional Budget Office had estimated.

Of course, the progress of our economic recovery cannot be separated from our progress against the pandemic, and I know that we are all following the news about the Omicron variant. As the President said yesterday, we are still waiting for more data, but what remains true is that our best protection against the virus is the vaccine. People should get vaccinated and boosted.

At this point, I am confident that our recovery remains strong and is even quite remarkable when put in context. We should not forget that last winter there was a risk that our economy was going to slip into a prolonged recession, and there is an alternate reality where, right now, millions more people cannot find a job or are losing the roofs over their heads.

It is clear that what has separated us from that counterfactual are the bold relief measures Congress has enacted during the crisis—the CARES Act, the Consolidated Appropriations Act, and the American Rescue Plan Act. And it is not just the passage of these laws that has made the difference, but their effective implementation.

Treasury, as you know, was tasked with administering a large portion of the relief funds provided by Congress under those bills. During our last quarterly hearing, I spoke extensively about the State and local relief program, but I wanted to update you on some other measures.

First, the American Rescue Plan's expanded Child Tax Credit has been sent out every month since July, putting about $77 billion in the pockets of families of more than 61 million children. Families are using these funds for essential needs like food, and in fact, according to the Census Bureau, food insecurity among families with children dropped 24 percent after the July payments, which is a profound economic and moral victory for the country.

Meanwhile, the Emergency Rental Assistance Program has significantly expanded, providing much-needed assistance to over 2 million households. This assistance has helped keep eviction rates below prepandemic levels.

This month we also released guidelines for the $10 billion State Small Business Credit Initiative program, which will provide targeted lending and investments that will help small businesses grow and create well-paying jobs.

As consequential as November was, December promises to be more so. There are two decisions facing Congress that could send our economy in very different directions.

The first is the debt limit. I cannot overstate how critical it is that Congress address this issue. America must pay its bills on time and in full. If we do not, we will eviscerate our current recovery. In a matter of days, the majority of Americans would suffer financial pain as critical payments, like Social Security checks and military paychecks, would not reach their bank accounts, and that would likely be followed by a deep recession.

The second action involves the Build Back Better agenda. I applaud the House for passing the bill and am hopeful that the Senate will soon follow. Build Back Better is the right economic decision for many reasons. It will, for example, end the childcare crisis in this country, letting parents return to work. These investments, we expect, will lead to a GDP increase over the long term without increasing the national debt or deficit by a dollar. In fact, the offsets in these bills mean they actually reduce annual deficits over time.

Thanks to your work, we have ensured that America will recover from this pandemic. And now, with this bill, we have the chance to ensure America thrives in a postpandemic world.

With that, I am happy to take your questions.

Chairman BROWN. Thank you, Secretary Yellen.

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 for the opportunity to testify today.

The economy has continued to strengthen. The rise in Delta variant cases temporarily slowed progress this past summer, restraining previously rapid growth in household and business spending, intensifying supply chain disruptions, and, in some cases, keeping people from returning to work or looking for a job. Fiscal and monetary policy and the healthy financial positions of households and businesses continue to support aggregate demand. Recent data suggest that the post-September decline in cases corresponded to a pickup in economic growth, and GDP appears on track to grow about 5 percent in 2021, the fastest pace in many years.

As with overall economic activity, conditions in the labor market have continued to improve. The Delta variant contributed to slower job growth this summer, as factors related to the pandemic, such as caregiving needs and fears of the virus, kept some people out of the labor force despite strong demand for workers. Nonetheless, October saw job growth of 531,000, and the unemployment rate fell to 4.6 percent, indicating a rebound in the pace of labor market improvement. There is still ground to cover to reach maximum employment for both employment and labor force participation, and we expect progress to continue.

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

Pandemic-related supply and demand imbalances have contributed to notable price increases in some areas. Supply chain problems have made it difficult for producers to meet strong demand, particularly for goods. Increases in energy prices and rents are also pushing inflation upward. As a result, overall inflation is running well above our 2 percent longer-run goal, with the PCE price index up 5 percent over the 12 months ending in October.

Most forecasters, including at the Fed, continue to expect that inflation will move down significantly over the next year as supply and demand imbalances abate. It is difficult to predict the persistence and effects of supply constraints, but it now appears that factors pushing inflation upward will linger well into next year. In addition, with the rapid improvement in the labor market, slack is diminishing, and wages are rising at a brisk pace.

We understand that high inflation imposes significant burdens, especially on those less able to meet the higher costs of essentials like food, housing, and transportation. We are committed to our price-stability goal, and we will use our tools both to support the economy and a strong labor market and to prevent higher inflation from becoming entrenched.

The recent rise in COVID–19 cases and the emergence of the Omicron variant pose downside risks to employment and economic activity and increased uncertainty for inflation. Greater concerns about the virus could reduce people's willingness to work in person, which would slow progress in the labor market and intensify supply chain disruptions.

To conclude, we understand that our actions affect communities, families, and businesses across the country. Everything we do is in service to our public mission. At the Fed we will do everything we can to support a full recovery in employment and achieve our price-stability goal.

Thank you. I look forward to your questions.

Chairman BROWN. Thank you, Mr. Chair. Secretary Yellen, thank you for your comments on the debt ceiling. We have 2 more weeks. We know failing to get this done will hurt families in small businesses and our whole economy.

I want to ask you about something else though. The *Wall Street Journal* reported 2 weeks ago the two-thirds of the largest publicly traded companies had larger profit margins in 2021 than in 2019 before COVID–19.

In 2020, top CEOs made 351 times the income that a typical worker made. Even during an ongoing pandemic when faced with increased demand and supply chain issues, big corporations refused to cut their own profits, they raised prices on people, they complained about having to pay workers more, never mind the fact they have been giving themselves raises for years without it impacting their prices. Meanwhile, the cost of housing and medical care and almost everything else for most workers has been rising for years.

You have said, Secretary Yellen, you have said the bipartisan infrastructure bill and Build Back Better will bring costs down for most Americans. Could you explain that?

Secretary YELLEN. Yes. The Build Back Better plan contains support for households to help address some of the most burdensome and most rapidly rising costs that they face, for example, the cost of childcare, which is virtually unaffordable for many American families. There are subsidies for quality childcare that will bring down the cost for the great majority of American families, universal pre-K for 3- and 4-year-olds, and a child tax credit. And all of that will bring down the cost of childcare, and for families that are facing crushing burdens, for example, very high rental costs in many areas, the additional money that they get through the child tax credit will help them keep a roof over their family's heads, and as I indicated in my opening remarks, is already helping them put food on the table.

With respect to the costs of caring for the elderly, Build Back Better contains support for those who are disabled and the elderly to get care in their homes. There are subsidies, an increase in the Pell Grant and money for education and for workforce training that will make that more affordable, and reductions in the cost of prescription drugs. These are some of the most burdensome items in family budgets, ones that have risen more rapidly than the general level of prices over time, and the bill will help families meet those burdensome expenditures.

Chairman BROWN. Thank you Madam Secretary.

Chair Powell, is it still your belief that higher prices in certain sectors are chiefly caused by the upheaval we are experiencing as a result of the global pandemic, and that as the pandemic eases so too should inflationary pressure?

Mr. POWELL. I guess I would say it this way. Generally the higher prices we are seeing are related to the supply and demand's imbalances that can be traced directly back to the pandemic and the reopening of the economy. But it is also the case that price increases have spread much more broadly in the recent few months across the economy, and I think the risk of higher inflation has increased.

Chairman BROWN. OK. Thank you. This is a question for both of you. The dollar is controlled by the American people, but stablecoins are controlled by opaque, secretive technology companies over and over on issue after issue. We have seen tech firms put profits ahead of the public interest with our elections, with our privacy, with competition in our markets.

And start with you Madam Secretary. Is it risky to let control over our money fall into the hands of these companies?

Secretary YELLEN. I believe that stablecoins can result in some greater efficiencies in the payment system and could contribute to easier and more efficient payments, but only if they are adequately regulated. And the President's working group, that I chair, recently issued or report indicating that there are significant risks associated with these currencies, risks to the payment system, risks of runs, and risks related to the concentration of economic power.

And we have called upon Congress to put in place, force these stablecoins a regulatory framework that would make them safe and protect consumers, and put them on a level playing field with other providers of similar services such as banks.

Chairman BROWN. Chair Powell, do you agree with that?

Mr. POWELL. Yes, I do.

Chairman BROWN. OK. Thank you. In closing out my time, I think it is important to look in a bit of historical perspective, as both of you have explained to me in other conversations, in the late '90s and early 2000s over-the-counter derivatives and subprime mortgages were billed as financial innovations. Financial regulators at the time pushed to weaken safeguards saying that a cloud of legal uncertainty hung over the OTC derivatives markets and regulations. Again, their words could discourage innovation and growth and drive transactions offshore.

Later, the banking lobby argued that regulating subprime mortgages would decrease borrower choice and reduce access to capital. Financial Crises Inquiry Commission cited derivatives and subprime mortgages as key factors in the crisis.

It looks again, again, again like the financial industry is using these same arguments for stablecoins in decentralized finance platforms. Today all of us on this Committee and both parties should be concerned about that, should understand the historical parallels, and should listen to this very bipartisan panel, the Secretary of the Treasury and the Chair of the Federal Reserve.

Senator Toomey.

Senator TOOMEY. Thank you, Mr. Chairman. Since the topic of the debt ceiling came out, let me just remind all of us of something that we know very well, and that is our Democratic colleagues could raise the debt limit all by themselves, any time they want, and there is nothing Republicans could do to stop them. The tools have been available to them all year long, and, in fact, Republicans have offered to expedite the process.

There is only one reason that our Democratic colleagues refuse to use reconciliation to raise the debt limit, and that is because they would have to specify the amount of debt they want to inflict on the American economy. They want to avoid accountability for this terrible spending spree they are engaged in by obfuscating and not specifying a dollar amount. I think we should be very clear about what is going on here.

Mr. Powell, under the Fed's new flexible average inflation targeting, the inflation target remains at 2 percent, but now it is on an average over an unspecified timeframe. Core PCE, the Fed's preferred inflation metric, is running above 2 percent over the past 5 years, nearly 3 percent over the past 2 years, and 4.1 percent over the past year. So it is above target, it has been above target and it is accelerating.

Yet, the Fed has maintained an extraordinary emergency monetary policy stance. It looks to me like this framework appears to be a weakening of the Fed's commitment to stable prices. Now I know you believe this is transitory, but everything is transitory.

Life is transitory. How long does inflation have to run above your target before the Fed decides maybe it is not so transitory?

Mr. POWELL. Well, first of all, the test that we have articulated I think clearly has been met now. You know, you are absolutely right. Inflation has run well above 2 percent for long enough that if you look back a few years, inflation averages 2 percent. It was not the case going into this episode. It had been many years since we had inflation at 2 percent.

So I think the word "transitory" has different meanings to different people. To many, it carries a time, a sense of short lived. We tend to use it to mean that it will not leave a permanent mark in the form of higher inflation. I think it is probably a good time to retire that word and try to explain more clearly what we mean.

Senator TOOMEY. Well, you know, it still strikes me as just extraordinary that the economy has—it is long past recovery. We are in a full-blown expansion. Unemployment is down to 4.6. We have record-high asset prices. Housing is leading the way to the point where, in many markets, houses are just unaffordable for many people. And yet, the Fed is going to purchase $35 billion in mortgage-backed securities in December alone and is scheduled to continue purchasing mortgage-backed securities for months on end. I would strongly urge you to reconsider the pace of the tapering.

Secretary Yellen, I want to follow up on the discussion about payment stablecoins. In the President's working group payment stablecoins were defined, and the definition is, and I quote, "Those stablecoins that are designed to maintain a stable value relative to a fiat currency, and therefore have the potential to be used as a widespread means of payment," end quote.

Well, that certainly covers every major stablecoin that exists right now. And what strikes me as perplexing is that the President's working group recommendation is that all such stablecoins be required to be issued by depository institutions only. But yet, as you know, the mechanism by which the value of the stablecoin is maintained relative to a fiat currency, they vary significantly. Some arguably look somewhat like depository institutions. Others look more like money market accounts. Still others look like something wholly new.

Why suggest that they all must be regulated the same way and treated as depository institutions?

Secretary YELLEN. Well, they all have the potential to be used as a means of payment, regardless of how they are used at the outset when they are introduced. And the structure that they espouse and adhere to, which is that they have a stable value relative to a fiat currency, that is really what depository institutions guarantee.

Senator TOOMEY. I would just suggest that we really think this through. I think the very fundamentally different designs suggest that there might be different regulatory approaches.

I am going to run out of time here, so Mr. Chairman, I just want to note that Pillar One of the Biden administration's international tax agreement will be the most significant international tax change in 100 years. To implement it, every one of our bilateral trade—I am sorry—our bilateral tax treaties would need to be modified. There is no historical precedent for bypassing the Senate treaty process to implement Pillar One.

Secretary Yellen, during a recent Finance Committee briefing, I asked you to acknowledge that Administration would need to come to the Senate for treaty approval to implement Pillar One. You responded that Treasury has yet to determine whether a treaty will be needed or not. In my view, and that of many of my colleagues, implementing Pillar One would require modifications to our existing bilateral tax treaties and those modifications must be approved by two-thirds of the Senate. The Executive branch cannot ignore the Senate on a matter that is clearly our constitutional responsibility.

Thank you, Mr. Chairman.

Chairman BROWN. Thanks, Senator Toomey.

Senator Reed is recognized from Rhode Island.

Senator REED. Thank you, Mr. Chairman. And first, let me thank Secretary Yellen for being our guest speaker at the Providence Chamber of Commerce last week. Thank you, Madam Secretary.

Secretary YELLEN. Thank you.

Senator REED. And I learned something there. I always do when I am with the Secretary. She is the only person that has been the Chairman of the President's Council of Economic Advisors, Chairman of the Federal Reserve, and Secretary of the Treasury. So thank you, Madam Secretary, for your work. And let me, Chairman Powell, extend my congratulations for your reappointment to the Federal Reserve. Thank you.

Chairman Powell, we have seen, as you both discussed, a steady job growth. What is troubling, though, is the labor participation rate has remained depressed, and until we get that participation rate up higher, we are going to have the complaint that we receive, the inability to get workers, et cetera. How do we do that, and what do you think are the causes of this fall-off in the participation rate?

Mr. POWELL. I did not catch the very end of that. Sorry.

Senator REED. The causes of the fall of the participation rate, and then how do we rectify those causes?

Mr. POWELL. So it is very surprising. Since June of last year, the unemployment rate has dropped six-and-a-half percent, and participation has basically moved up to two-tenths. It sort of moved sideways, which was surprising. I think when enhanced unemployment insurance ran off and schools reopened and vaccination came, we all thought there would be a significant increase in labor supply and it has not happened. So you ask why there is tremendous uncertainty around that, but a big part of it is clearly linked to the ongoing pandemic. People answered surveys and they are reluctant to go back to work. They are reluctant to leave their caregiving responsibilities and go back to work because they feel like schools might be closing again, things like that.

So it is an issue, and I think what I am taking on board is that it is going to take longer to get labor force participation back. We are not going right back to the same economy. And really, often labor force participation is a lagging indicator. It follows big improvements in the unemployment rate. And we are probably on track to have that happen, and that means to get back to the kind of great labor market we had before the pandemic we are going to need a long expansion to get that. We are going to need price stability. And in a sense, the risk of persistent high inflation is also a major risk to getting back to such a labor market.

Senator REED. Thank you very much.

Madam Secretary, let me thank you for maximizing the flexibility in the Emergency Rental Assistance Program. Steps like self-attestation and bulk utility payments have been very helpful to Rhode Islanders is trying to get these returns. One area though is very difficult and it always seems difficult. That is the homeless population. Can you look at and try to develop the ERA guidelines to emphasize how funds can be appropriately used for homelessness?

Secretary YELLEN. That is an extremely important area. We are very focused on it and we will be happy to work with you on it. What I can say is that ERA funds can be used to provide so-called housing stability services, a range of services to the homeless to help them find a stable shelter.

Something that Treasury did, a kind of flexibility that we built into our guidelines, is ERA statute requires that to be eligible for assistance a household has to have a so-called rental obligation. Recognizing that would be something that would be challenging for families experiencing homelessness. We created an opportunity for ERA grantees to provide individuals with a letter of intent to pay a rental obligation. So with this letter of intent, that would make it easier for the homeless to be able to secure housing.

So those are two forms of flexibility we think will help, and we would be glad to work with you to see if we can identify more.

Senator REED. Thank you, Madam Secretary, and communicating those provisions to local authorities would be helpful.

And just a final point, Secretary Yellen, this is with the Homeowner Assistance Fund. I know you are looking at the State plans. And if you could accelerate that to get the money out, because as you well know, a lot of these moratoriums on eviction are either gone or going, and it would be very helpful to get the money out. Thank you.

Secretary YELLEN. Yes.

Senator REED. Thank you, Mr. Chairman.

Chairman BROWN. Thank you, Senator Reed.

Senator Crapo, of Idaho, is recognized.

Senator CRAPO. Thank you, Mr. Chairman.

Secretary Yellen, some appear to believe that you have announced that unless a debt limit increase or a suspension occurs before December 15th, that the Treasury faces imminent default. That is not how I have read your comments. So it would be helpful for you to clarify what your current projection is for when Treasury would run out of headroom to operate below the debt limit and run dangerously low of operating cash. I also request that Treasury provide details of its latest debt and cash projections to the Finance Committee and look forward to receiving those projections.

Secretary YELLEN. Yes. Let me clarify what I said. What I indicated in my most recent letter to Congress is that I have a high degree of confidence the Treasury will be able to finance the U.S. Government through December 15th, but there would be scenarios in which Treasury would not have sufficient funds to continue to finance the operations of the U.S. Government beyond that date. I would note that on December 15th, Treasury will invest funds from the infrastructure bill, and that will use up $118 billion worth of capacity when those funds from the Highway Trust Fund are invested in Government securities.

And I did not say that there is no way that we can make it past December 15th. There are a range There is uncertainty about what our cash balance will be, and our resources right now, there is uncertainty about where we will be on December 15th. And there are scenarios in which we can see it would not be possible to finance the Government. That does not mean that there are not also scenarios in which we can, but we think it is important for Congress to recognize that we may not be able to and therefore to raise the debt ceiling expeditiously.

Senator CRAPO. Well, thank you for that clarification.

Chair Powell, inflation hit 6.2 percent last month, which is the highest in more than three decades. Still, the Administration is pushing for support of a nearly $2 trillion social spending package. And by the way, that number even accepts their budget gimmicks that hide real costs that could mean several trillion more in spending over the next 10 years.

Most of that spending does nothing to ameliorate the problems of rising inflation, in fact, will simply add fuel to the inflation fire. I am very concerned that the Administration is not taking inflation's threat seriously, and in the case of energy prices is enacting regulatory policies that themselves are threats.

Do you agree that inflation is a serious threat to our economy, and how do you intend to address inflation?

Mr. POWELL. I do think that the threat of persistently higher inflation has grown. I think my baseline expectation is still, as I mentioned, and of most forecasters, is still that inflation will move back down over the course of next year, closer to our target. But clearly the risk of more persist inflation has risen. And I think what you have seen is you have seen our policy adapt, and you will see it continue to adapt. We will use our tools to make sure that higher inflation does not become entrenched.

Senator CRAPO. I noted in your opening statement that you indicated that inflation pressures will linger well into next year. You do stand by that?

Mr. POWELL. Yes. I think we can now see, certainly through the middle of next year, it is an expectation. You know, forecasting is not a perfect art, as you may have noticed. But yes, right into the middle of next year, and that is our expectation. But of course, what has happened is that data has been pushed out repeatedly as supply side problems have not really improved.

Senator CRAPO. And if Congress were to pass an additional $2 trillion plus in spending, mixed with a number of increases in taxes, would that add to inflationary pressures?

Mr. POWELL. Senator, I am sorry but I will just note that we have a longstanding policy of not commenting on active legislation, as you probably are not surprised to hear.

Senator CRAPO. I suspected that. One last, very quick question, and for you, Chair Powell. You have indicated that there would be a report by the Fed on its discussion paper relating to digital currencies, and that has been delayed several times. My question to you is, when can we expect the Fed's report and are there reasons for that delay?

Mr. POWELL. I would think very soon. I mean, certainly in coming weeks. And the reasons are they are just trying to get it right and trying to find the time to get it right. It has been a very busy time, as you will know.

Senator CRAPO. Thank you.

Mr. POWELL. Thank you.

Chairman BROWN. Thanks Senator Crapo.

Senator Warner, of Virginia, is recognized.

Senator WARNER. Thank you, Mr. Chairman, and it is good to see you Secretary Yellen, and congratulations, Chair Powell, on your reappointment.

I want to start with you, Chair Powell. I mean, I actually think the Fed's activities, particularly during the pandemic, which included both extensive use of 13(3) facilities and some aggressive bond purchases actually helped stave off what could have been a complete economic meltdown. And while we did spend in excess of $5 trillion, mostly all in extraordinarily partisan way under both President Trump and President Biden on recovery from COVID, I think history will treat those actions, certain areas excessive, but I think net-net, from a historical perspective, it will be well-regarded both for the American economy and for the world's economy.

But I think, as you have indicated, Chair Powell, I think we are seeing our economy come back. We will differ on the bipartisan infrastructure plan and maybe even a bit of the Build Back Better, but that is part of our job. But I have seen since your FOMC's November meeting, that the Fed signaled a shift, announcing starting to move back from some of the very aggressive means you have used and announcing a tapering on the pace of bond purchases month-by-month as the economy continues to strengthen.

I would like you to get into that a little bit. Which factors most influence that decision for a gradual change in course, and how long do you think it will take the Fed to gradually wind down these purchases?

Mr. POWELL. So we actually have not made a decision on that, but I would just say this. The most recent data, particularly since the November FOMC meeting, show elevated inflation pressures, a rapid improvement in many labor market indicators without an accompanying addition of labor supply, and also strong spending that really signals big, significant growth in coming months.

Remember that every dollar of asset purchases actually adds accommodation to the economy, but at this point the economy is very strong and inflationary pressures are high, and it is therefore appropriate, in my view, to consider wrapping up the taper of our asset purchases, which we actually announced at the November meeting, perhaps a few months sooner. And I expect that we will discuss that at our upcoming meeting in a couple of weeks. Of course, between now and then we will see another labor market report, another inflation report, and we will also get a better sense of the new COVID variant, as well, before we make that decision.

Senator WARNER. Let me drill down on that a little bit. I mean, clearly I think I was surprised. You say you were surprised. I think most of us were surprised that coming back in September that we did not see more folks reenter the labor force. I believe that tapering and, frankly, accelerating it can kind of serve as an insurance policy if we do not see this return and we see these potential overheating of the economy. So I do hope that you will move more aggressively on this tapering.

I also would like to just touch again, you mentioned some of the new variants with COVID. One of the things we have got to maintain is some ability to move quickly, and we, obviously, Congress moved very quickly under President Trump and Secretary Mnuchin, with the outset of COVID. Hopefully we will not have to come back to those kind of actions from this entity. But with these new variants coming on board, what are the markers you are going to look at to determine how that might influence Fed activity?

Mr. POWELL. So at this point, I think we are all looking at the same thing and we are listening to the experts, which I am certainly not one of those. But I talk to those people, and it is really about transmissibility, it is about the ability of the existing vaccines to address any new variant, and it is about the severity of the disease once it is contracted. And we do not know. I think we are going to know—what I am told by experts is it will know quite a bit about those answers within about a month. We will know something, though, within a week or 10 days. And then and only then can we make an assessment of what the impact would be on the economy. As I pointed out in my testimony, for now, it is a risk. It is a risk to the baseline. It is not really baked into our forecast.

Senator WARNER. I am down on my last 20-odd seconds. I am not going to get away without at least raising an issue I always raised with Secretary Yellen and I know, Chairman Powell, I have raised with you as well, and that is, I think, the very smart action that took place again, actually under President Trump, on investment in CDFIs and minority depository institutions.

And I want to thank Chairman Brown and people like Senator Crapo and so many others, including Secretary Mnuchin, that we made that investment,. and you now, Secretary Yellen, are implementing that. We have seen a great take-up rate from the ECIP program, in terms of tier one capital investment into these institutions that hit low- and moderate-income individuals.

I guess, with this demand exceeding the amount of money we had, what else can we do to shore up these institutions? And I would love to press both of you. Maybe you can take this partially for the record since I have gone over, on how we might even be able to look at securitization of some of this CDFI debt so that we can again, increase the liquidity of these institutions. But if you briefly, recognizing I have gone over, answer that I would appreciate it.

Thank you, Mr. Chairman.

Secretary YELLEN. Well, we would be glad to work with you to discuss possibilities there. I think that the infusion of funds into CDFIs and MDIs, it is historic. It is going to make a tremendous difference to their ability to support businesses, particularly in minority areas.

We have seen huge take-up of the ECIP funds that have been provided. It is $4 billion over subscribed. We are working through applications and we will try to make decisions on investments shortly. But it certainly shows that it is a program that has the potential to make an enormous difference to this lending. We would be happy to work with you to find ways to make it yet more effective.

Senator WARNER. I am way over time. If you could just say yes, you will work with me too, Chair Powell, that would be great.

Mr. POWELL. Yes, I will work with you too.

Chairman BROWN. Senator Rounds, from South Dakota, is recognized for 5 minutes.

Senator ROUNDS. Thank you, Mr. Chairman. First of all, Chairman Powell, congratulations on your renomination. I do look forward to supporting your nomination. I think you have provided stability during a very challenging time. Secretary Yellen, it is good to see you once again, and I thank you for your service to our country.

In September, when you were before this Committee, I asked you when you would say enough is enough when it comes to our debt and deficit. You acknowledged that debt becomes an issue when it exceeds 100 percent of GDP, a level we have already hit, as you know. But you said also that since the cost of servicing our debt has been negative due to a long stretch of low rates, our debt has been less burdensome. However, due to skyrocketing inflation, I think it is just a matter of time before we exit this very low interest rate environment.

Secretary Yellen, do you think it is finally time to start sounding some alarm bells with regard to the financing of our national debt?

Secretary YELLEN. Well, I would not want to sound alarm bells. I think that we are in a sustainable debt path, but President Biden was very clear when he proposed the Build Back Better plan that it should be fully financed as the infrastructure bill was. And that is what CBO found, that the fiscal plans that the Biden administration have put forth in infrastructure and Build Back Better will not worsen the debt or deficit path. And indeed, by the end of the 10-year horizon, Build Back Better lowers deficits, and it yields very great benefits beyond the 10-year horizon, particularly from the investment in the IRS to enhance its ability to close the tax gap and to collect revenues that are due under our tax code.

Senator ROUNDS. Right. But——

Secretary YELLEN. So it is a fiscally responsible plan that makes matters better rather than worse.

Senator ROUNDS. But Madam Secretary, I guess the reason for my question is that it is not just a matter of whether or not we have half-a-trillion dollars or so that will have to be financed or more during a 10-year time period as that money comes back in for paying for programs that are 4 to 5 years in duration under the proposal. But rather, we have $29 trillion plus that will not only be refinanced during a time period, but may very well be refinanced at a higher rate. In fact, treasuries right now have run anywhere from 1.54 percent to 1.42 percent over the last couple of days. But they are going to trend upwards, and, in fact, there are some people that would suggest that treasuries may very well hit 3.5 percent over the next 18 months. Do you think that would be a reasonable expectation?

Secretary YELLEN. The forecasts that were included most recently in the midsession review assumed that interest rates would move up over time over the 10-year horizon in line with the forecasts of blue chip and other private sector forecasters. And even then, given the expectation that real interest rates are likely to remain low, below levels that prevailed for much of the postwar period, for important structural reasons that we have seen plentiful savings at the global level and weak investment demand, even with interest rates moving up the interest burden of the debt remains quite manageable.

Now of course there is some scenarios in which interest rates could move up more than that and we could be in a position—there is a chance that the interest burden would become difficult for us to manage. But I believe we could have the capacity to make fiscal decisions.

Senator ROUNDS. Well thank you, Madam Secretary. And Chairman Powell, I recognize, and you have been very consistent that you manage based upon your direction, which is full unemployment and a 2 percent interest rate goal. But does the Fed take into account the impacts on a national debt servicing and our credit worthiness when it considers interest rate decisions?

Mr. POWELL. I think certainly the cost of programs, it all goes into our model. You mentioned credit risk. There is not any credit risk baked into treasuries at this time, and I would not expect that there would be, certainly in the foreseeable future.

Senator ROUNDS. When you look at this, do you project that treasuries will rise over the next 18 months?

Mr. POWELL. So generally, that is something that staff has been forecasting ever since I got to the Fed 10 years ago, and it really has not happened. What has happened is that, as the Secretary mentioned, you have a series of long-running global forces that are leading to lower sustained interest rates. How long will they last? It is very hard to say. But for now we have lower inflation trend. Obviously, currently at the moment we have high inflation, but for many years, we have had low inflation, and the markets are baking in that return to lower inflation.

Senator ROUNDS. Thank you. Mr. Chairman. Thank you for your time. Thank you for your answers.

Chairman BROWN. Senator Menendez, from New Jersey, is recognized.

Senator MENENDEZ. Thank you, Mr. Chairman. One of the central pillars of the House-passed version of the Build Back Better Act is an expanded childcare support program that would provide direct support to families so that nobody has to pay more than 7 percent of their income on high-quality childcare. Madam Secretary, would expanding access to childcare services improve the labor force participation rate and overall economic outcomes among women?

Secretary YELLEN. Senator, I believe that it will succeed in having that impact. One of the reasons that labor force participation, especially of women, in the United States is now lower than that in many developed countries—once upon the time, we were the leader; now we have fallen behind—and a major difference between the United States and other developed countries is our support for childcare, paid leave, things that enable women to participate in the labor market. And so I believe the provisions, the subsidies for childcare and the universal 2 years of pre-K, both of those things, I believe, will enhance labor force participation.

There are a number of studies that show that. The Treasury Office of Economic Policy recently issued a paper that summarized some of the evidence. And recently, the Congressional Budget Office, in assessing Build Back Better, issued a statement that indicated that this was likely to boost labor force participation.

Senator MENENDEZ. Well, let me—I agree. One study suggests that the rising costs of childcare resulted in an estimated 13 percent decline in the employment of mothers with children under the age of five. Another study found that when one major city started offering 2 years of free public preschool, the percentage of mothers with young children participated in the labor force increased by 10 percent. So you have real-life realities of that.

And one of the things that I am looking forward to on this is the effect on minority families. A study from October in the *Washington Post* showed that Black men and women are twice as likely as their White peers to report that they are unable to look for work because they cannot find childcare. So there is evidence here that the currently broken childcare system's is especially harmful, particularly to the most vulnerable members of our society.

Chairman Powell, earlier this month I sent you a letter, along with Chairman Brown and several of our Senate colleagues, asking you to work closely with the Boston and Dallas board of directors and search committees to find and select diverse candidates for the open president's position. We have not had a Hispanic in this role. Can you give us an update on how that search is going, including what specific steps you have taken to ensure the diverse candidates are being considered?

Mr. POWELL. Those searches are just getting going now. They have, I believe, both hired headhunters and I know the process well, and it will involve extensive outreach to all different kinds of communities and an openness to different kinds of candidates. And it is essential, we believe, that diverse candidates be identified and be given every chance to do well and win those processes as they go forward. So I can take you through the details of it if you would like offline, but it is something we are pretty committed to.

Senator MENENDEZ. I would very much like to see that, because as you and I have discussed on several occasions the Federal Reserve has a serious diversity problem, particularly at the leadership level, and the lack of minority representation hurts the Fed's ability to do its job. Especially when we talk about promoting maximum employment and price stability, it is essential that the Fed has in place individuals that understand how an uneven recovery will impact minority communities. So I look at this as the beginning of, I hope, an effort as it relates to diversity, and I hope we will have a successful result, I understand a process that hopefully includes good, qualified candidates to be considered, but I hope it will lead to a successful result.

Madam Secretary, let me turn to you on the same question. How have you empowered Janice Bowdler, the Treasury's first Counselor for Racial Equity, to diversify the Treasury Department? This is something that I think I have raised with you several times. I would like to understand what her first goals will be, what are the immediate goals for the Counselor for Racial Equity? Can you speak to me to those issues?

Secretary YELLEN. Yes. Briefly, she is empowered to review and look for ways to enhance not only our internal hiring and diversity efforts within Treasury, but also to review all of the programs that we conduct, whether it is the emergency programs that were authorized by the ARP or our tax code and the way it is administered more broadly. We have asked her to undertake a review of ways in which these programs can be changed, or if they may have unintended negative consequences on diversity or on minority communities, and we are asking her to look for ways to improve what we do, both internally at Treasury, and with respect to the many programs we conduct. Senator Menendez. Well, I look forward to seeing the effects of her work. Thank you, Mr. Chair.

Chairman BROWN. Thanks Senator Menendez.

Senator Tillis is recognized from his office, perhaps. He may have turned his camera off.

Senator Kennedy from Louisiana is recognized.

Senator KENNEDY. Madam Secretary, welcome. Mr. Chairman, welcome. Congratulations.

Mr. Chairman, I want to start with you. I realize that no one is clairvoyant, but I think it is fair to say that the experts who have been advising you about the future rate of inflation have pretty much the same credibility as those late night, psychic hotlines you see on TV. Is the Fed considering increasing the pace of its tapering? We have got to get control of inflation. It is ravaging our people.

Mr. POWELL. So I think what we missed about inflation was we did not predict the supply side problems, and those are highly unusual and very difficult, very nonlinear, and it is really hard to predict those things. But that is really what we missed, and that is why all of the professional forecasters had much lower inflation projections.

You asked about the taper, so yes. As I mentioned earlier, since the last meeting, we have seen basically elevated inflation pressures, we have seen very strong labor market data without any improvement in labor supply, and we have seen strong spending data too. And remembering that every dollar of asset purchases does increase accommodation, we now look at an economy that is very strong and inflationary pressures that are high. That means it is appropriate, I think, for us to discuss at our next meeting, which is in a couple weeks, whether it will be appropriate to wrap up our purchases a few months earlier, as I mentioned.

Senator KENNEDY. All right, thank you.

Mr. POWELL. But in those 2 weeks we are going to get more data and we are going to learn more about the new variant.

Senator KENNEDY. OK. Thank you, Mr. Chairman.

Madam Secretary, you and I do not agree on everything, but I have great respect for your intellect and your experience. And I understand you have a job to do, but I would be remiss if I did not point out that in my opinion there is no fair-minded person in the Milky Way who believes the infrastructure bill and the Build Back

Better bill are not going to require the American people to incur substantial debt.

Now, here is my question, and I am looking for a number. How much, in the Biden administration's opinion, is too much debt? At what point as you incur debt will the Biden administration say, "OK, that is it. We cannot borrow anymore, or it is going to hurt the American people"?

Secretary YELLEN. Well, first of all, I want to say that I disagree with your assessment of Build Back Better. It is fully paid for, or even more than fully paid for, and CBO just completed a comprehensive review of it in which they found essentially the same thing. And I believe it was important that it be fully paid for.

Now, I think no single metric is appropriate for evaluating whether or not the level of debt in an economy is reasonable and sustainable. And we used to, we are accustomed to looking at debt-to-GDP ratios and using those kind of metrics and looking around the world. Many economists have found that debt-to-GDP ratios of 100 or more tend to be associated with significant problems.

Senator KENNEDY. Are we at 100 and more?

Secretary YELLEN. We are, but we are in very different times and that is why it is important to recognize there is no single metric that is right. And especially in a world of very low interest rates, it is appropriate to look at the burden of that debt on society, which is better measured by the real interest burden of the debt. And that is exceptionally low, negative currently, but projected as interest rates normalize to rise to——

Senator KENNEDY. I am going to run out of time.

Secretary YELLEN. It is still——

Senator KENNEDY. I am going to ask you this, Madam Chair, quickly. You gave a great speech back in September of 2019. It was actually an interview, and I ordered a copy at the time. And I am trying to find my copy here. You said—this is what you said. I am going to quote. I thought this was such a wise statement.

You said, "The former Fed chair said she is not worried about the debt to gross domestic product ratio in the United States right now," but added, and I quote, "I am worried about the trajectory of where it is going. It is not stable. We are not living within our means right now. Debt is going to escalate and that is going to create problems down the road. But then most important is the demographic wave that lies ahead of us is going to essentially, over the next 30 years, double spending on three programs: Social Security, Medicare, and Medicaid as a share of GDP. And the increases, both because of the aging population and on the healthcare side, medical expenses, those things put us on a trajectory of a completely sustainable budget path."

Now that was when the debt was $17 trillion. It is 29 trillion. You are going to add trillions more through the Build Back Better. Why is that not true today?

Secretary YELLEN. Well, I want to repeat again, Build Back Better is fully paid for and will not add to the debt or to deficits. In fact——

Senator KENNEDY. You and I just do not agree on that.

Secretary YELLEN. ——it can reduce it.

Senator KENNEDY. I understand.

Secretary YELLEN. CBO certainly agrees with what I said. And, I mean, we do have problems eventually in financing Medicare and Social Security, which need to be addressed.

Senator KENNEDY. Thank you, Mr. Chairman.

Chairman BROWN. Senator Van Hollen is recognized for 5 minutes, from Maryland.

Senator VAN HOLLEN. Thank you, Mr. Chairman. Thank both of you for your service. Chairman Powell, congratulations on your renomination.

And Secretary Yellen, I really want to pick up just where you left off. I remember 3 years ago, in both this Committee and the Budget Committee, talking about the Republican tax breaks for big corporations. At that time, the Congressional Budget Office did assess that it would add $2 trillion to the deficit. Is that not true?

Secretary YELLEN. That is my recollection that that was the kind of number that——

Senator VAN HOLLEN. That was the CBO score.

Secretary YELLEN. Yes.

Senator VAN HOLLEN. So it is interesting to hear so many of my colleagues who, 3 years ago, did not give a damn about adding $2 trillion to the debt, now talking about the Build Back Better bill, which as you said does not add to the debt at the end of the 10 years. In fact, the Congressional Budget Office has already done its analysis. And one of the ways that it does not add to the debt is that we close some of those big——

Secretary YELLEN. Yes.

Senator VAN HOLLEN. ——tax breaks from multinational corporations who like to park their profits in tax havens. And we got rid of some of the incentives in that bill that actually encouraged U.S. companies to ship jobs and equipment overseas. Isn't that the case?

Secretary YELLEN. That is the case.

Senator VAN HOLLEN. And can you talk also about out your efforts, your successful efforts to establish a sort of 15 percent global minimum rate in order to prevent the race to the bottom?

Secretary YELLEN. Yes. Over decades, what we have seen is that countries have been engaged in a race to try to attract more multinational firms to do business in their countries by cutting corporate tax rates. And if you look at the pattern across the globe you see the corporate tax rates have simply been trending down. The consequence of that is that corporations have paid less and less tax in the United States and elsewhere. They have won from this competition, and countries like the United States and other countries are raising less and less money through taxation on corporations.

In the United States, corporate taxes have fallen to around 1 percent of GDP as a consequence of this. And this international tax agreement that has been endorsed by, I think, 137 countries, countries have agreed to hold hands and say, "Enough is enough. We need to raise taxes to support infrastructure spending, to support investment in people, to make our economies productive to grow over time. And corporations that are profitable and successful need to pay their fair share."

So we want to be able to tax companies at a reasonable rate and to stop this race to the bottom. And that is what the 15 percent global minimum tax achieves.

From our point of view, the difference—we are the only country right now that has a global minimum tax, and our tax is 10.5 percent. It is half what companies that operate only in the United States or multinationals pay on their U.S. income. And that big differential really encourages multinational companies based in the U.S. to shift their profits abroad. So by raising our own rate from 10.5 to 15, we narrow that differential. We help just purely domestic firms that right now are on an unfair, unlevel playing field versus multinationals that can shift their activities abroad in the global agreement, boost competitiveness——

Senator VAN HOLLEN. Thank you, Madam Secretary. I think it makes common sense and it is important for U.S. businesses.

There is also a provision in the bill that says folks who are making more than $10 million every year should pay a little bit more in U.S. taxes. I think that makes sense to most people around the country in order to help the whole country succeed. And you mentioned some of the items that we are going to then invest those funds in. It is fully paid for, including lowering childcare costs, saying that no families should pay more than 8 percent on childcare costs. That is one of the items, right?

Secretary YELLEN. Yes.

Senator VAN HOLLEN. And there is also, as you mentioned, the provision with respect to the child tax credit. This is one of the largest tax cuts for middle- and lower-income families ever. Is it not?

Secretary YELLEN. Yes.

Senator VAN HOLLEN. And we are talking about up to $3,600 per year, per child, per family, which will expire on December 31st if we do not extend it as part of the Build Back Better legislation. Isn't that the case?

Secretary YELLEN. That is true.

Senator VAN HOLLEN. So we are talking about closing corporate tax loopholes, asking folks who are making more than $10 million a year to pay a little bit more, so that we can lower costs and financial squeeze on American families, and it is all paid for. Isn't that right?

Secretary YELLEN. That is correct.

Senator VAN HOLLEN. Thank you, Madam Secretary. Thank you, Mr. Chairman.

Chairman BROWN. Thank you, Senator Van Hollen. Senator Tillis is recognized.

Senator TILLIS. Thank you, Mr. Chair. Secretary Yellen, Chair Powell, thank you for being here. Chair Powell, I am glad to see your nomination has been sent forth. I look forward to supporting your confirmation.

This may actually be a legitimate yes-no question. It is on LIBOR transition. Do you all both agree that Congress needs to provide a solution to effect the LIBOR transfer, possibly using SOFR for legacy contracts, but optionality moving forward?

Mr. POWELL. Yes.

Secretary YELLEN. Yes.

Senator TILLIS. Great. Chair Powell, you noted the PCE was risen by 5 percent of the last year with energy and rent prices pushing inflation upward, in particular. I want to make sure I understand your perspective on inflation and how it is calculated by the Fed. If the Federal Government provides subsidies to every American renter so their out-of-pocket rent was the same as it was 12 months ago, even though the sticker price on the rental unit has gone up, would that mean the Fed would see no inflation of rents?

Mr. POWELL. I am not sure exactly how they collect the data, but I think the question would be, what is the landlord receiving, would be my guess.

Senator TILLIS. Right. So——

Mr. POWELL. I do not know the answer to that.

Senator TILLIS. ——the landlord is receiving more in spite of the fact that that rent payment would have been subsidized——

Mr. POWELL. I do not know the answer. I will come back to you. I do not know the answer on that. Yeah.

Senator TILLIS. Chair Powell, what would be—I am sorry. Secretary Yellen, what would be your position?

Secretary YELLEN. I would agree with Chair Powell's comments on that.

Senator TILLIS. I think it would be interesting to get that. You know, we were going to use another example. If turkey prices went up for 14 percent, I think that is roughly the number at Thanksgiving, and we subsidize the cost of the turkey, is the turkey cheaper or is it 14 percent more expensive? So I would like for you to get back with me on that, Chair Powell.

Chair Powell, I have got another question for you. We had the original COVID virus. We have had Delta. We have had some variants have not been designated as a variant of concern. We have got Omicron now, which is being viewed as a variant of concern. And after that we will have maybe a Pi variant. But I am a bit worried that the Administration has a policy of just zeroing out COVID, that the goal here is to remove a virus that is likely to be around for as long as we are alive. It is going to be like a flu season. But I feel like we are still in this mode where monetary policy or Fed policy is heavily instructed by the risk of another onslaught of a virus. We took the first wave. Now we are dealing with subsequent waves that are variants.

So at what point do we just get back to a more normal execution of Fed policy that is not influenced by maybe the next threat, as if it is suggesting we are going to go back to where we were last year? I do not believe that most people think that we would treat a variant the way we had to treat this new virus that is among us.

So at what point can we get away from seeing the market, seeing the Fed appear to react based on, and implement policy that looks more like what we had to do last year with something new affecting our economy?

Mr. POWELL. You know, so we are not thinking, and I am not thinking that the effects on the economy will be remotely comparable to what happened last March with the shutdowns or that there will be additional shutdowns. We have tried to adapt. We are focused on maximum employment and price stability, and we have tried to adapt our policy as we have moved along. We will continue to do that.

And, you know, part of the world is—I agree with you—we are going to see this disease being around probably for a long time. I think the economic effects over time will diminish. We have to be humble about our ability to predict this or to really understand. But we are not at all thinking that we have not made progress on the economy, as you suggest.

Senator TILLIS. Well, I think it would be helpful for the Administration to maybe be more specific to the American people to understand that COVID is going to be among us. It is a new virus. It is going to be here and we have to deal with it. We cannot have talk or expectations that we would in any way react the way we did last year. Last year, rightfully, but now we have to deal with the fact that it is among us.

Secretary Yellen, I will have to—first, I would like unanimous consent for a *Washington Post* FactCheck on the economists, that Nobel winners, that President Biden has cited as the Build Back Better plan actually being noninflationary. I think if you read further into the letter, and you hear other comments by those economists, they say that longer term, it may reduce inflation, but shorter term, it may increase inflation.

And so rather than drilling down on a question—my time is expired—I would like unanimous consent to submit the FactCheck.

And just to say, Secretary Yellen, I think that there are laudable goals in some of what is put into the Build Back Better plan, but I do not think that they are sustainable. I think the way that they have been passed out of the House are problematic. And I tend to agree with Senator Kennedy that we have got other pressing problems, promises that we have already made to the American people with respect to Medicare, Medicaid, Social Security, that are promises that we have already made, that if we continue to add more and more stressors on our debt and our deficit, those are going to be promises that are broken. And then once we get that on sound footing, maybe we should consider other ways to help others.

Chairman BROWN. Without objection, so ordered.

Senator Warren, from Massachusetts, is recognized.

Senator WARREN. Thank you, Mr. Chairman.

So as you know, in the early 2000s, the Fed stood by and failed to use its authorities to regulate and supervise the biggest banks in this country. And the result was a financial crash that cost millions of families their jobs, millions their homes, millions their savings. That is why I believe that vigilant regulation is an essential part of the Fed's job.

Chair Powell, you recently stated that it would be appropriate, quote, "for a new person to come in and look at the current state of regulation and supervision and suggest appropriate changes," end quote. Is that still your position?

Mr. POWELL. Yes, it is.

Senator WARREN. The press also reported this as your agreement to defer to the Vice Chair for Supervision. So I want to ask you a specific example of how that deference would work in practice. If you are confirmed and if the new Vice Chair for Supervision suggests a regulatory action that you disagree with, will you bring that matter before the full Federal Reserve board for consideration?

Mr. POWELL. So let me just say that what the law does is the law gives the Vice Chair for Supervision the authority to set the regulatory and supervisory agenda. And I would expect to have a perfectly normal, good, constructive working relationship with a new Vice Chair for Supervision. I would not see myself as stopping those kinds of proposals from reaching the Board since the law seems to indicate that that is the job of the Vice Chair for Supervision.

Senator WARREN. Good. I am just trying to be clear on your understanding of it. So you would bring that before the full board for consideration, even if you personally disagree?

Mr. POWELL. You know, that would be my general intent, yes.

Senator WARREN. OK.

Mr. POWELL. Yes. I mean, I cannot cover every possible conceivable situation, but yes. That is my understanding of how—this the only other office that has specific legislative grant is the Vice Chair for Supervision, and that is what the job is.

Senator WARREN. OK. I appreciate that. So you are saying you would do it and you would actually feel like you were legally bound to do it.

Mr. POWELL. I would say that is how I read the law.

Senator WARREN. OK. If the Vice Chair for Supervision recommends a regulatory action with which you disagree, such as undoing a rule that Vice Chair Quarles brought forth and that you voted in favor of it, what does it mean to defer under such circumstances? I just want to understand your thinking here.

Mr. POWELL. I do not think I used the term "defer." You mentioned that was a press report.

Senator WARREN. Yeah.

Mr. POWELL. You know, we are a commission structure. The person is not the Comptroller of the Currency where they are the sole voice. Every Vice Chair for Supervision and those who held the job before there was a formal job, they have to convince the other members of the Board and that is how it works, and that is how I would expect it to work going forward.

Senator WARREN. And I appreciate that. But your specific language was that you would respect that authority, which is I believe why many, many in the press interpreted that as defer. That is why I am trying to understand what respect that authority—those were your words—means.

Mr. POWELL. You know, I would say a couple things. First, respect the authority to bring these proposals. I also think a person who arrives, nominated by the President, confirmed by this body, with particular views, I would say that that person is entitled to a degree of deference, but I would not overstate that. The person still will have to convince the members of the Board to vote for whatever that person is proposing.

Senator WARREN. OK. And then, if I can, just one more example. If the person in this role proposed new capital requirements to incorporate banks' exposure to climate risks, would you vote for that?

Mr. POWELL. Would I vote for that? I would have to see what you are really specifically talking about.

Senator WARREN. All right. It is very helpful. I appreciate your answers here.

You know, during the last 4 years, while the Fed was chipping away at regulations piece by piece, new and emerging threats to our financial system continued to grow. I just think about the list right now. Climate change—right now, climate change is on pace to depress the global economic output by as much as $23 trillion annually by 2050. Crypto—the market cap of cryptocurrency market is now $3 trillion, six times bigger than it was just a year ago. And this is explosive growth that is coupled with almost no regulation and no guardrails to protect either investors or our financial system.

The crash scenario here writes itself. Nonbank financial institutions grow bigger by the day. BlackRock alone manages nearly twice as much money as the entire economy of Japan while the Fed refuses to work to declare them a systemically significant financial institution.

Growth and collateralized loan obligations, a new COVID variant, the list goes on. This is why I believe that the Fed must take a much more active role on regulation. Failure to do so puts our entire economy at risk.

Thank you, Mr. Chairman.

Chairman BROWN. Thank you, Senator Warren.

Senator Hagerty, of Tennessee, is recognized.

Senator HAGERTY. Thank you, Chairman Brown, Ranking Member Toomey. I appreciate your holding the hearing today. Secretary Yellen, Chair Powell, thank you for your testimony. Chair Powell, I want to congratulate you on your recent renomination. I look forward to the hearing that is coming up. I also appreciate that we are going to be seeing the Fed's report on the digital dollar soon. We have been long awaiting that. I think it is an opportunity for America to take a real lead in innovation. So thank you for that.

Secretary Yellen, I would like to pose my first question to you. Every move that President Biden has taken so far has seemingly improved Russia and Vladimir Putin's strategic position. From capitulating on the New START treaty's unconditional extension to not fully enforcing mandatory sanctions to halt Nord Stream 2, we see Russia and Putin now with leverage and strength, vis-a-vis our partners in Ukraine, that they have not had since the fall of the Soviet Union. Natural gas prices in Europe have been soaring to Putin's benefit. And now, in real time, just like watching a fatal car crash in slow motion, we are seeing Russia buildup an unprecedented number of troops on the border of Ukraine.

Secretary Yellen, I want to make certain that you have all the authority that you need from Congress to deter, and if necessary, to punish Putin if Russia invades Ukraine. After what happened in 2014, we certainly cannot be caught flatfooted again.

Secretary YELLEN. We do have authority to impose sanctions. We have imposed sanctions, and the President signed in, I believe it was in April, a new Executive order expanding Treasury's authority to impose sanctions. And we are aware of the troop buildup and I believe have adequate authority to——

Senator HAGERTY. Good.

Secretary YELLEN. ——act at least on these sanctions.

Senator HAGERTY. Madam Secretary, I am pleased to hear that you have the authorities that you need to pose significant economic and financial pressure. I am curious to hear what the Biden administration's strategy is to stop this train wreck that appears to be happening at the border of Ukraine.

Secretary YELLEN. Well, we are very cognizant of what is happening and are involved in discussions about what the appropriate set of steps will be.

Senator HAGERTY. Madam Secretary, with all due respect, I hope that we can talk much more than discussions about real strategy to send a very strong message to Putin. This is the largest buildup that we have seen again since the fall of the Soviet Union. They are taking a very aggressive posture there, and I would encourage you to send a strong message to Vladimir Putin that we are going too, we are capable of, and you have the authority to do what you need to put significant, biting financial pressure on that regime.

Secretary YELLEN. Agreed that that is appropriate.

Senator HAGERTY. Thank you. Secretary Yellen, I will turn to another topic that we have discussed before. Back in September, we talked about the leak of confidential taxpayer information to ProPublica that was done in early 2021, for political purposes. You testified then that it is an illegal act, that it is being investigated thoroughly, and there cannot be any tolerance for that. You and I agreed on that. So given that testimony, I want to ask you; have the leakers been identified?

Secretary YELLEN. There are independent agencies, both within Treasury, the inspector general, also the FBI and DOJ that are conducting investigations. We are not privy. Nothing has been reported out yet from those investigations that I am aware of, but I believe those investigations are moving forward.

Senator HAGERTY. Well, I take that as no update, but after the Lois Lerner scandal, after the scandal that occurred here in 2021, under this Administration's watch, I appreciate the fact that there is an investigation underway, but I would say this. Until we have the results of that investigation, until we have true accountability, I cannot imagine how the Biden administration is encouraging what is in effect a 10-times increase in the audit capacity of the IRS when there is no accountability there. This is the D.C. swamp at its best.

Secretary YELLEN. Sir, we do not know what the source of the leak of that information was, and I would say it is premature to indicate that it came from the IRS.

Senator HAGERTY. Well, I think that underscores my case. We cannot even determine the source of the leak. We know that was IRS information. There is zero accountability. Again, this is the swamp and I could not encourage, and certainly my constituents cannot condone this aspect of the Build Back Better plan that would give even more authority and a tenfold increase in the budget to snoop on more Americans, audit more Americans and invade our privacy.

Secretary YELLEN. Sir, we have an enormous tax gap. Over the next decade, it is estimated that actual tax collections will be $7 trillion below what is due. And the IRS has been starved of resources over the last decade, so that they are not able to conduct meaningful audits of either high-income individuals or complex partnerships or corporations. And that is where most of the tax gap lies. These are very important resources that are needed to make sure that the wealthiest individuals and corporations particularly comply with the tax laws and pay their fair share what is due.

Senator HAGERTY. I would just——

Chairman BROWN. Thank you. Thank you.

Senator HAGERTY. ——encourage good management here, so we make sure those resources are focused in the direction they should be rather than attacking conservative groups and ordinary Americans and leaking that information to the public. Thank you.

Chairman BROWN. Senator Cortez Masto is recognized, from Nevada.

Senator CORTEZ MASTO. Thank you Mr. Chairman. Secretary Yellen, Chairman Powell, welcome. Chairman Powell, congratulations on your renomination.

I also want to express my appreciation to the Treasury Department and Federal Reserve staff because we cannot forget why we are here. We have passed, over the last couple of years, several COVID relief packages that were bipartisan supported, except maybe for one of them, and the money was immediately put out to help our families, our businesses. And so your staff have taken extraordinary efforts not only to avoid an economic collapse during this deadly COVID–19 pandemic, but getting billions of dollars in relief and loans to help us manage the economy, help our small businesses, help families, is a tremendous feat, and we should not forget that. So, thank you to your staff who have worked so hard as well.

Let me talk about something that is impacting my State is the supply chain disruption, and I know you all are working on this. Secretary Yellen, President Biden announced a plan to address the supply chain disruptions. Now it is clear that the low vaccination rates, repeated outbreaks, and an over-reliance on Chinese imports contributes to some delays in shortages, but Secretary Yellen, where has President Biden's initiatives to address supply chain disruptions been successful, and where are some of the current sticking points that might persist past the second half of next year?

Secretary YELLEN. Well, President Biden, the Administration, created a Supply Chain Disruption Task Force in June, and it has been working broadly to identify places where the White House could make a contribution, could be effective. And I think we are beginning to see progress at the ports.

As you know, President Biden worked with the Ports of Los Angeles and Long Beach, where there have been long delays in unloading ships, ships waiting for many days to be able to offload their containers. They have agreed to remain open 24/7, which they are now doing. And also, the Administration has worked with major retailers that were leaving containers for long periods time on the docks without picking them up, to make sure that they begin to expedite movement of those containers away from the ports.

In other areas, in Savannah, the President has worked to establish locations away from the ports where containers could be brought, moved, and deposited to create more room at the docks to keep cargo moving.

And so there are just a wealth of interventions and working really with private sector—because these are private sector participants that are responsible for the supply chain, but bringing together parties. We are looking at ways that maybe we could work with States and cities to expedite the licensing commercial driver's license to raise the supply of truck drivers, which are in short supply.

And of course, a lot of this is related to the pandemic, and it comes back to increasing vaccinations, boosters, get the pandemic under control so that demand patterns shift back toward more normal, toward services and away from goods. But there are a wealth of interventions that the White House is involved in.

Senator CORTEZ MASTO. No, I appreciate that. I think there is also a role for Congress to continue to support not only the Administration, but there is legislation that we could pass to actually help us address this as well, which is why I support the Supply Chain Resiliency Act that has been introduced by me and several of my colleagues. It creates an Office of Supply Chain Resiliency at the Commerce Department, charged with monitoring, researching, and addressing vulnerable supply chains. The office will provide loans, loan guarantees, and grants to small and medium manufacturers to allow them to address supply chain bottlenecks by expanding production. We should be prepared for this, knowing this has happened for the future short-term and long-term. And so I appreciate your comment.

Secretary YELLEN. Long term is important as well.

Senator CORTEZ MASTO. Thank you. I know my time is up. I will submit the rest of my questions to you for future response as well. Thank you again.

Chairman BROWN. Thanks, Senator Cortez.

Now, Senator Scott, from South Carolina, is recognized.

Senator SCOTT. Thank you, Mr. Chairman, and thank you, Ranking Member, for holding this hearing this morning. Thank you to the guests for being here with us this morning.

I was thinking about the conversation I had over Thanksgiving with some South Carolinians about the consequences of elections, and we have heard over and over again that elections have consequences. Elections have consequences.

But perhaps no finer point that elections have consequences is simply losing a single seat in Georgia, January 5th. The result of one lost seat in Georgia may cost taxpayers just this year $5 trillion in additional spending. One single seat, $5 trillion in additional spending; $1.9 trillion on a COVID relief package that had 1 percent for vaccines and less than 9 percent for COVID related health; $1.2 trillion for an infrastructure package with only 10 percent of that $1.2 trillion going to roads and bridges in the next 5 years, and now we are talking about overheating the economy with another $2 trillion. Elections have consequences. It is stunning.

And what I have heard this morning is hard to process back at home in South Carolina. What I have heard so far is that the Administration wants you to believe what they say and not what you see and are experiencing, what you see with your own eyes. They say by putting another $2 trillion in the economy, it will make things more affordable for you.

But what you see and are experiencing is inflation in part caused by trillions of dollars of Government spending and the anticipation of even more money. In other words, when inflation is over 6 percent and your wage growth is under 3 percent, your buying power is going down, not up. And they want you to believe that spending more money is going solve this problem.

But South Carolinians on a fixed income, like Social Security, averaging around $1,500 per month, they are spending because of this transitory inflation—I do not know what the definition of "transitory" is anymore—a third of their Social Security income on putting gas in their cars, heating their houses, and fixing up the places they live in.

Chairman Powell, is it your impression that the Biden administration has a clear understanding that rising prices are hitting people the hardest who are on Social Security, families struggling paycheck to paycheck, and single moms?

Mr. POWELL. It is not appropriate for me to comment on what the Biden administration thinks.

Senator SCOTT. What do you——

Mr. POWELL. I will say that we do.

Senator SCOTT. Well, let me ask you this.

Mr. POWELL. I can talk about what I——

Senator SCOTT. What do you think, in 30 seconds or so?

Mr. POWELL. So, I think that is right. If you think that if you think about families that are living paycheck to paycheck, they are feeling high gas prices, soon enough heating, oil prices, food prices. They are certainly feeling that. And, you know, this is our job. Our role is to make sure that this higher inflation does not become entrenched.

Senator SCOTT. And part of the challenge that I see—I know that someone else may address this point, but I was trying to figure out the complexity of the labor force participation rate, and the fact of the matter is that since the pandemic, we have seen a loss of about 1.7 percent of the labor force participation rate. We celebrate a 4.6 percent unemployment rate, but what we sometimes miss is the fact that when you have fewer people looking for work, your unemployment rate goes down because your long-term unemployment goes up, which means that your labor force participation rate also goes down.

Before I run out of time, let me just follow up on Senator Hagerty's points about expanding the power of the IRS and your response, Secretary Yellen. Giving the IRS more power to catch tax cheats by starting with the IRS bank reporting proposal seems far-fetched, at best, because the original proposal literally said that if you were a successful lemonade stand operator, making 12 bucks a week, putting $600 into your checking or savings account, your checking account, would cause that account to be reported to the IRS. So then they revamped that proposal to $10,000, said differently, if you are making minimum wage, working almost full-time, your accounts would then also be transferred or at least available for heightened inspections by the IRS.

If you are looking to catch complex business partnerships in cheating their taxes, you do not need the IRS bank reporting proposal. Can you tell the American people today, Secretary Yellen, whether you still support any form of the IRS bank reporting requirements your Department proposed earlier this year, which would provide the IRS with currently undisclosed taxpayer information for the purpose of targeting essentially every single working American at minimum wage or higher? Do you still support that or not?

Secretary YELLEN. I do support it. I think it is important that the IRS have visibility into opaque income streams, and that is an important way of improving tax compliance. And it is not——

Senator SCOTT. Secretary Yellen, let me ask a question.

Secretary YELLEN. ——it is not——

Senator SCOTT. Let me ask you a question. Reclaiming my time. Let me ask you a question. Because if you are looking to catch tax cheats, why in the world would we start with something as low as $600 and then revamp it to $10,000? If you are trying to find millionaires and billionaires, they are not running lemonade stands—I do not think they are—and they are certainly not making minimum wage. So when you create a new approach to having the IRS search through our account records at our financial institutions, or——

Secretary YELLEN. I am sorry. It is not searching through anybody's——

Senator SCOTT. ——or compelling our financial institutions to forward our information to the IRS——

Secretary YELLEN. I am sorry. It is not detailed information about what you are doing in your bank account. It is too——

Senator SCOTT. Aggregated information going to the IRS is the scariest proposal, and there is no way that it has to be anywhere near the thresholds that you have started with in order to find a way to——

Secretary YELLEN. We——

Senator SCOTT. ——take accountability for those complex organizations.

Secretary YELLEN. We——

Chairman BROWN. Senator Scott, your time has expired. Secretary Yellen, please answer the question.

Secretary YELLEN. We have worked——

Senator SCOTT. Well, Chairman, if we are going to have a conversation, we are going to have the dialog.

Chairman BROWN. Well, you have had the dialog. Please——

Secretary YELLEN. We have worked carefully with Congress to narrow the scope of the reporting, and in particular to exempt wage earners and Federal beneficiaries. The initial proposal was intended to be comprehensive. The requirement asked for exactly two pieces of information, aggregate inflows and aggregate outflows over the course of a year for each account where financial institutions already report interest income earned if it exceeds $10. The burden on financial institutions was minimal and there was no attempt to target income earners whose actual incomes are below $400,000. But the low reporting requirement was meant to make evasion more difficult by open multiple accounts.

Chairman BROWN. Thank you.

Senator Ossoff, from Georgia, is recognized.

Senator OSSOFF. Thank you, Mr. Chairman. Thank you to our witnesses. Chair Powell, congratulations on your renomination.

The Fed, as has been noted, is beginning to taper its bond buying program, but the program is scheduled to continue through mid next year. We are talking about approximately $100 billion in November, around $90 billion in December, according to the current schedule that we have seen created by the Fed, injected into capital markets via asset purchases.

Chair Powell, what specific economic purposes does this bond buying continue to serve?

Mr. POWELL. So, we are actually, at our next meeting in a couple of weeks, going to have a discussion about accelerating that taper by a few months, and in the intervening time, we will see more data on inflation, on employment. And also, we will see more about the development of the Omicron variant.

You know, the purpose at the very beginning was all about market function, and the purchases did a great job of restoring market function. When we continued the program and said we would continue it until substantial further progress was made, the idea was to continue to support the economy in the way that lower longer-term interest rates do. And it served that purpose. Now the economy is strong and inflationary pressures are high. So we are going to discuss the possibility of a faster conclusion and wrap up those purchases a little earlier.

Senator OSSOFF. With aggregate demand quite strong, in fact, demand currently exceeding supply of labor and durable goods in certain markets, as you noted, rates are low, capital markets are highly liquid. So what economic purpose—and I am not disputing that there is one, but what economic purpose does this continued bond buying serve today and in the months to come, recognizing that as you have stated, you and your colleagues will be reassessing the pace of the taper at your December meeting?

Mr. POWELL. So the purpose it has been serving lately, for the most part, has just been supporting economic activity. And you are absolutely—you know, the point I am making is that the need for that has clearly diminished as the economy has continued to strengthen, as we have seen continued significant inflationary pressures, and that is why we announced that we would taper, and it is why we are now saying that we are going to discuss a somewhat faster taper at our next meeting.

Senator OSSOFF. When future crises arise, as they no doubt will, this specific method, quantitative easing bond purchases beyond typical Federal open market operations which are targeting interest rates, what have been the costs and benefits of utilizing this technique? Does it not, for example, while it provides additional liquidity to capital markets, worsen inequality by driving up equity and asset valuations and shifting more cash onto the balance sheets of major financial institutions, high net worth individuals, and investors?

Mr. POWELL. So I think the record from this and the last episode is that asset purchases work through much the same channels as regular interest rate changes. Just the difference is when you are at the effective lower bound you cannot lower interest rates anymore. What do you do? There are two things you can do, really. You can promise to hold rates lower for longer, and that will affect rates out the curve, and then you can actually go ahead and buy bonds directly, and that lowers long-term rates. That supports economic activity.

So it is part of the toolkit. As long as we are going to be near the effective lower bound, asset purchases will be part of the toolkit.

You know, the inequality point, I think, it does not bear up under scrutiny. Essentially, what is happening is companies are experiencing lower longer-term rates. That enables them to finance their operations, mortgage rates. The longer-term debts in our economy will benefit from those lower long-term rates and support economic activity through many of the same channels. I think that the idea that they promote inequality is not well-supported. And, by the way, we never hear about that from the—you know, we meet with community groups and labor unions, and they never come in and complain about quantitative easing.

Senator OSSOFF. Thank you for sharing your point of view, Chair Powell. With my remaining time, I would like to ask you what you currently assess to be the most significant systemic threats to financial stability in the United States.

Mr. POWELL. You know, I would say the banking system is strong. There are some issues to address in the capital markets, but I would not say they rise to the level of grave systemic importance. We always think about cyber risk as being the one that is so difficult to quantify and for which it is hard to have a great playbook. So that is the one that I tend to lose sleep over.

Senator OSSOFF. Thank you, Chair Powell. Thank you, Mr. Chairman.

Chairman BROWN. Senator Daines, of Montana, is recognized for 5 minutes.

Senator DAINES. Chairman, thank you. Secretary Yellen, Chairman Powell, thank you for being here as well, and congratulations, Chairman Powell, on your renomination. I was vocal and out front last August supporting your nomination, and congratulations. You will have my support.

I would like to start by expressing my concern with the inflation we are seeing in the economy, my concern with the Administration and my Democrat colleagues are continuing to plow ahead with, I believe, is a very reckless tax and spending proposal as if inflation did not exist.

To go back to where we were here earlier this year, Senator Scott made the comment about elections having consequences, and the consequences are then we have policy outcomes here that have consequences. Even though we had nearly $1 trillion of unspent COVID relief dollars coming into 2021, the Democrats marched forward with a $1.9 trillion, purely partisan spending package. Some of my colleagues refer to this as cash cannons shooting across this economy.

So, we created demand by injecting borrowed money into the economy. Now the Democrats are looking at jamming through this some $1.75, $1.8 trillion reckless spending bill. Many believe the true cost of that bill is somewhere between $4 and $5 trillion, because they played games with truncating these massive programs to try to get the number under $2 trillion. The real number is probably $4 or $5 trillion.

The point is this. Injecting all this money in the economy, borrowed money, at the same time constricting supplies whether it is through mandates or Government shutdowns, we now have really the perfect storm created by the Biden administration for inflation, not to mention the issues of energy. Montanans expect to see a 47 percent increase in heating costs this winter with higher energy prices.

The proposal that the Democrats are trying to ram through at the moment will add at least $300 billion of deficit in the first 2 years, and about $740 billion over the first 5 years. And with all due respect, Secretary Yellen, you said it is paid for. I think the CBO has not actually said that, even if you add in the massive tax break they will be giving to the coastal elites the Democrats put in there because their donors screamed so loud in places like California and New York. But the bottom line is it is not fully paid for, and the CBO has stated that.

Also, giving the IRS $80 billion to hire 87,000 more agents should be chilling to the American people. This is a massive expansion of Government. It is funded, in part, through more than $400 billion in additional taxes on small businesses, that I believe will only exacerbate the inflation fire. And it is why so many Montanans and Americans are experiencing these inflation harms every day.

Chairman Powell, core PCE and CPI readings, two main indicators for inflation, jumped to 30-year highs of 4.1 percent and 6.2 percent, respectively. Needless to say, we are seeing much higher inflation rates than the Fed projected, but yet the Fed is continuing to predict that inflation is going to come down in the near future. I think many of us here several months ago were very concerned about inflation and probably had a different view of where the inflation forecast was going than the Fed did at that time.

But given that inflation has consistently run hotter this year than the Fed has projected, what, in hindsight, would you say the Fed underestimated in its previous forecast? And second, what economic factors have changed to give you confidence in your projection that inflation will come down the near term?

Mr. POWELL. So I would love to be able to blame our models, but it is a poor craftsman who blames his tools. And I will tell you what I think we missed and what all the forecasters missed, and it is the same thing. It is really the collapse of—or call it just the enormous amount of supply side problem we have had with semiconductor chips and lumber and all of those things. We saw high demand coming, we saw some higher inflation coming, but what really happened was this demand came and hit a kind of a hard constraint in the form of these supply constraints. And that is not in the model.

So, you know, we live and learn. It is hard to model something that is nonlinear and that is, you know, incredibly infrequent. There is no precedent really for it.

Senator DAINES. Yeah. You know, I spent 20 years in business and there are two rules: the forecast is always wrong and the further out the forecast, the wronger it is, is generally true.

But I guess what have we learned from that and what has been adjusted in your model now, having learned what has happened here in the last 6 months, that gives you confidence that your current forecast of seeing diminishing inflation are accurate?

Mr. POWELL. You know, so we have learned a lot about how to model, for example, a pandemic. We had not thought much about that. But you will never hear us say that we have great confidence in our forecast. What you hear us saying is that there is tremendous uncertainty around our forecasts, and we have been saying that for some time. And also we have said that we do see these inflationary pressures as now being sustained well into next year. We do expect them, though, to subside in the second half of next year, and by the way, that is very widely held in the forecasting community, which admittedly has much to be humble about.

Senator DAINES. Do you think deficits and the rapid increase in debt, given that we are now projecting $1.2 trillion annual deficits for the foreseeable future, is that going to have an impact on inflation?

Mr. POWELL. Well, I do not want to comment on fiscal policy. That is really up to you and——

Senator DAINES. But you think the rapid rise in debt is a threat as it relates to inflation?

Mr. POWELL. I would just say if I can stay in my role, you know, unfunded spending tends to be stimulative, I think, in the short term. It does. But I would just say, we do need to return to a more sustainable fiscal path, but the timing and the means of doing that are really not up to the Fed.

Senator DAINES. Mr. Chairman, I know. Before I close, I want to quickly touch just one of the banking——

Chairman BROWN. Well, you did close. You can make a comment. No more questions. We are already over, and we are well over time.

Senator DAINES. I have a short comment to make. A lot of Americans and Montanans are concerned about this. We have seen reports, and some of my colleagues the other side of the aisle have concerns over Professor Omarova, the nominee for Comptroller of the Currency. Concerns are one thing. I would encourage my colleagues to come out publicly opposed to Ms. Omarova's nomination so we can find a way forward on filling this important nomination.

Mr. Chairman, thank you.

Chairman BROWN. Senator Tester is recognized from his office.

Senator TESTER. Well, thank you, Mr. Chairman. Hopefully you can hear me. I want to thank Secretary Yellen and Chairman Powell for being on this call.

I think it is interesting though, Mr. Chairman, before I get to the folks who have presented, that when we gave a tax break to billionaires under a Republican administration there was no talk about debt then, that, you know, this was going to turn around the economy and it was going to move forward. The fact is, debt is debt, whether it is created by Democrats or Republicans, and I think it is more than just a little bit disingenuous to talk about debt when it fits your needs. It does not fit them all.

The fact of the matter is that we have got a debt problem in this country and we need to work to fix it. But giving tax breaks to billionaires is not a way to fix the debt problem in this country. That is just a side comment.

I want to talk about housing. For Secretary Yellen, look, we have housing challenges all over this country. We have particular housing challenges that not a lot of folks are talking about in Indian country and in some of the more rural and frontier areas of our State of Montana, and I believe throughout the country. We have done some stuff for housing, but the truth is the impact of COVID–19, the impact of poverty in many areas, particularly the Indian country areas, is a big problem.

Could you give me some indications on how we should be addressing this issue and if it is an issue that is very high up on or radar screen as far as something that needs to be done?

Secretary YELLEN. Well, I think the issue of affordable housing is one that has plagued our country for many years. It certainly predates the pandemic, but the pandemic really dramatically impacted the income of many, especially low-income workers that already were tremendously challenged by the affordability or lack thereof of housing.

So in the short term, the Emergency Rental Assistance money that was made available is helping these households, but that those funds cannot be used to solve the longer run problems that we have. But the Build Back Better package, really that is where the President has proposed policies to address what is really a crisis in housing affordability. And that proposal contains really the most ambitious investments in affordable housing production that this country has ever seen.

So I am hopeful that that will be helpful. The funds that were made available to State and local governments in the ARP can also be used to address longer-term problems with respect to housing affordability.

Senator TESTER. So one of the headlines in the papers today, in Montana at least, is that housing inventory has caused an increase in prices. In other words, the inventory is low, supply is low, and it is driving prices up. That is pretty basic economics, quite frankly. But with Build Back Better, do you see a significant investment in supply for workforce housing and affordable housing?

Secretary YELLEN. Yes. I think it is mainly directed at affordable housing. In total, I think the housing-related provisions amount to almost $150 billion, so I think that that is substantial support to raise the supply of affordable housing in this country.

Senator TESTER. And maybe this is going to be up to us, but I have got to ask you anyway because you have been around a bit, Secretary Yellen. Have you had a chance to take a look and see how much money that $150 billion, if implemented correctly, could leverage for housing? Are you there?

Secretary YELLEN. I—sorry. Is this for me?

Senator TESTER. This is for you, Secretary Yellen.

Secretary YELLEN. Oh, I am sorry. The question was, how much——

Senator TESTER. My question was, have you had a chance to look to see how much $150 billion could leverage for affordable housing?

Secretary YELLEN. I do not have those numbers at my fingertips, but I can get back to you on it. I am sure there are estimates of that.

Senator TESTER. OK. Very good. Well, I just want to thank you both for being here. Chair Powell, congratulations on the nomination, and we will move from there. And thank you, Mr. Chairman.

Chairman BROWN. Thank you, Senator Tester.

Senator Cramer, of North Dakota, is recognized.

Senator CRAMER. Thank you, Chairman. Thank you both for being here. Congratulations, Chairman Powell. I look forward, as do many of my colleagues, to supporting your confirmation.

First thing I want to do, Mr. Chairman, is correct a record that got real fuzzy when Senator Kennedy asked Secretary Yellen a couple of times about debt and deficit and she said that the Build Back Better plan is completely paid for and to prove it, the point she said, the CBO agrees with her. Senator Daines touched on it.

But I want to read directly from the Congressional Budget Office's score. "The CBO estimates that enhancing this legislation would result in a net increase in the deficit totaling $367 billion over the 2022 through 2031 period." That is the 10 years.

Now, I have got the chart year by year. It is $155 billion next year alone, and it continues for 5 years, and then in the last 4, it shows some turnaround. But of course, all of that 5 years of revenue or beyond the first 5 years is built on the premise that these programs are not going to be continued, which we know, any casual observer of American politics knows, once these programs start, they are never going to be cut again. But even presuming, the presumption is built in, it is a $367 billion deficit, according to this Congressional Budget Office's score on the Build Back Better plan.

Now, I want to get back to an earlier question that Senator Menendez asked you, Secretary Yellen. Basically he said would a lot of these programs in the Build Back Better plan actually increase workforce participation, things like child tax credit, childcare credit. You talked a little bit just now about—Senator Tester called it workforce housing. You called it affordable housing. Important distinction because those words matter a lot.

So my question is, if all of those credits, all of those giveaways, all of those incentives are going to help increase workforce participation, is there a work requirement tied to all of those?

Secretary YELLEN. I would like to start by correcting what I believe you said about the CBO.

Senator CRAMER. Well, I did not say it. I read the score from the Congressional Budget Office.

Secretary YELLEN. I am sorry, but you did not read it completely. It does say $360 billion over 10-year effect on the deficit. It then notes that it did not include the revenue that would come from enhanced resources for tax enforcement. They estimated that at $207 billion, and have indicated that their scoring of that does not take account of behavioral changes that would result from a regime of stricter tax enforcement. And Treasury put out its own estimate of that.

Senator CRAMER. And fairy dust creates energy. I understand.

But I want to get back to the issue of incentivizing a workforce. Are there workforce incentives, work requirements attached to the Build Back Better plan from the House?

Secretary YELLEN. There are places where there are not workforce requirement, like the child tax credit. But the vast majority, the overwhelming preponderance of individuals who receive these tax credits, the child tax credit, do work. And, in some cases——

Senator CRAMER. But we are talking about a workforce participation rate that needs to be increased. Do any of these incentives require people to work to get them or is this just going to be added on to whatever they are already getting, regardless of their employment situation? They are not, just so you know. They are not.

You know, earlier, Secretary Yellen, you answered a question from Chairman Brown about why Build Back Better does not increase inflation. Or, actually, his question was, will it bring down costs? And you went on to explain all the ways that it brings down costs, except that you really did not.

In North Dakota, the inflation rate is over 7 percent, over 7 percent, because we appropriately last year stimulated the economy, the Congress, the President, the Federal Reserve through its policies. We did that appropriately not knowing what the outcome was going to be. But by the time we got to early this year, the winds of inflation were already blowing, the economy was already expanding, and Democrats added $2 trillion more dollars to debt and deficit as well as stimulating the economy without any requirement on the other side. Now we are doing another, whatever it is going to be, $2 to $4 or $5 trillion that the Democrats are going to push through.

And I know that my time is up and I know that Chairman Powell does not answer questions about pending legislation, at least not recently, so I am going to ask him this. Do you know of any economists or a reputable economic model where more stimulus of money into a situation reduces the cost of a product? To be fair, Secretary Yellen, it may help people pay for some things, but the cost does not come down when there is more money.

So, Chairman Powell, do you know of any economic model where costs come down when people have more money to spend on it?

Mr. POWELL. It is really hard to answer that in the abstract. I mean, there are forms of, really, investment that create more capacity in the economy.

Senator CRAMER. And I would agree with that, which is why I supported the infrastructure package. I think that invests in the infrastructure that moves an economy and pays people to work to build it and to use it rather than not pay them to work.

Thank you, Mr. Chairman.

Chairman BROWN. Thank you.

Senator Sinema is recognized from her office.

Senator SINEMA. Thank you, Mr. Chairman, and thank you to our witnesses for being here today. Secretary Yellen and Chair Powell, it is good to speak with you both again.

Arizonans are increasingly concerned about supply chain disruptions and inflation. As we know, global supply chains were and continue to be fragmented and dysfunctional due to the pandemic. In the bustle of the holiday season, families are frustrated to see delayed shipments and empty shelves. Ongoing disruptions reduce available supplies of goods, which tends to push prices higher, creating inflationary pressures.

I would like to hear from both of you on my question. Of the inflation that we are seeing, how much of it do you attribute to global supply chain disruptions? And Secretary Yellen, if you could respond first.

Secretary YELLEN. Well, we are seeing inflation all around the developed world. The United States is not alone in seeing an increase in inflation, and I think most countries are seeing disruptions that result from the pandemic. We have had a huge shift away from spending on services like going out to restaurants, traveling, staying in hotels, and a shift toward goods that need to be produced, many of which are imported. This is true in the United States and in other countries as well.

Another impact of the pandemic that we are seeing here and other countries are a reduction in labor supply because many people who have jobs that involve face-to-face contact do not yet feel comfortable going back to work and childcare is disrupted.

And so labor supply has been constricted and this dramatic shift toward goods away from services, combined with reduced labor supply and problems of when it is suddenly hard because of supply chain problems to get needed components for manufacturing or to stock shelves, that tends to incentivize more ordering to build inventories, which adds to the problem.

So I think both of these factors play into inflation in the United States and also to other countries.

Senator SINEMA. Thank you. Chair Powell.

Mr. POWELL. Yes. So I guess I would just say, you are looking for a number. I do not really have one close to hand, but if you just took out the inflationary effects around durable goods and other goods, which is really where the main inflation is coming from, certainly in core inflation, you would be at a substantially lower level of inflation. In addition, you are seeing energy prices going up. It is not really a supply chain issue, mostly, but some of it is. But if you look at headline inflation, that is going to be one of the big factors driving up headline inflation.

Senator SINEMA. Thank you. Now as you know, Government is extremely limited in its ability to resolve supply chain issues, which are fundamentally working relationships between private businesses. Now that being said, I know the Administration has taken steps to address some of the staffing and logistics issues at our ports. Congress also recently acted by passing the Bipartisan Infrastructure Investment and Jobs Act, which makes a historic and necessary investment in our core infrastructure like roads, bridges, transit, ports, and broadband.

Republican Senator Rob Portman, my negotiating partner in crafting this deal, has said he believes our new law is crafted in a way that will reduce inflation. Secretary Yellen, do you agree with that assessment that this bipartisan infrastructure deal will reduce inflation?

Secretary YELLEN. Well, yes. I think over time the infrastructure bill will increase the efficiency of our economy, modernize our ports, our rails, improve our roads and bridges, and enhance the potential output of the economy, raise our ability to supply goods and services efficiently, and in that sense over time will lower inflationary pressures.

Senator SINEMA. Thank you. And my last question for you, Chair Powell. In February, I asked you if the Fed needed to achieve all three of the goals it set out—full employment, 2 percent inflation, and an outlook for greater than 2 percent inflation before raising interest rates, and you said yes. Now recognizing that the Fed has made some initial moves to begin tapering bond purchases, is the answer that you gave me in February on interest rates still true today?

Mr. POWELL. So there is still a three-part test. That is still true. I would say that if you look at the—one goal was to reach 2 percent inflation and another was to achieve inflation above 2 percent for some time, I would say this is a decision for the Committee to make, but I think the Committee, in coming meetings we will wind up saying that those inflation conditions have been met.

Senator SINEMA. Thank you. Thank you, Mr. Chairman.

Chairman BROWN. Senator Warnock, from Georgia, is recognized.

Senator WARNOCK. Thank you so very much, Mr. Chairman. Secretary Yellen, it is good to see you and congratulations, Chairman Powell, on your nomination for a second term as Chair of the Fed. I look forward to some supporting your nomination and continuing to work with you to ensure that Georgia families and businesses and workers continue to recover from the pandemic and that working together we can ensure that we have a labor market that includes historically overlooked communities so that we have an economy that works for all Americans.

Earlier this month, Georgia's Department of Labor reported that the State's unemployment rate is now at 3.1 percent. This is the lowest rate in the State's recorded history. This is good news, and it indicates that emergency economic relief programs in the CARES Act and the American Rescue Plan have been working. Certainly, working in Georgia.

Still, Georgia's economy is not out of the woods yet. Small businesses continue to tell me that they are having difficulty hiring, while the labor force is still not what it was prior to the pandemic.

Secretary Yellen, the labor participation rate fell in the outset of the pandemic and it has remained flat over the past year, even as aid programs ended and the economy reopened, particularly among women, which is why some called the pandemic a "she-demic", if you will. Women have been especially hard hit by this, especially women and parents with small children. What else should Congress do to help bring workers back into the labor force?

Secretary YELLEN. So I would say that in the short run vaccinations and increasing the number of people who have boosters to get the pandemic under control, to reduce number of cases, that is the single most important thing we need to do to create an environment in which people feel it is safe to work. A substantial number of people say that they are not looking for work for COVID-related reasons. In some cases, even people who are fully vaccinated but who engage in face-to-face contact in their jobs are concerned about exposing themselves to COVID risks. And I think you see that for schools, childcare centers, retail, in food services.

Over a medium to longer term, many of the provisions of Build Back Better, particularly those affecting childcare, the availability of elder care and care for the disabled, support for childcare, those things promote labor force participation.

Senator WARNOCK. Chairman Powell, would you add your perspective to this?

Mr. POWELL. Yes. I mean, I guess I would just say that on participation it has been a bit of a surprise that we have not had more of a recovery, and I really think the single most important thing is to get past the pandemic. Then we are really going to know how permanent this is. People get surveyed and they do say—substantial numbers of people are concerned about going back to work at a time when the pandemic is still moving around. And so I think that is the key, which means more vaccination, more boosters.

Senator WARNOCK. So getting the pandemic under control through vaccinations, and if I am understanding you correctly, the care economy, so supporting families with elder care, childcare that you think that will actually strengthen labor market participation and not the opposite?

Mr. POWELL. You know, I do not want to get into any particular legislation.

Senator WARNOCK. Sure.

Mr. POWELL. But yes, I think there is good research, as the Secretary pointed out a while ago earlier in the hearing, there is good research showing that the U.S. has fallen behind, for example, in female labor force participation. You ask why, you do comparisons to other countries, and one of the differences that shows up as statistically significant is the availability of childcare.

Senator WARNOCK. Yeah. I believe in the dignity of work and it frustrates me, quite frankly, to hear folks moralize about the importance of work while not supporting workers, and their ability to participate in the labor market. I think closing the coverage gap, which is part of Build Back Better, will also help enable and strengthen workers even as they strengthen the American economy.

Thank you all so much.

Chairman BROWN. Thank you, Senator Warnock. As we close, Senator Toomey.

Senator TOOMEY. Thank you, Mr. Chairman. Just a few points to wrap up. First I would like to respond to my friend and colleague, the senior Senator from Montana, who brought up the issue of the 2017 tax reform and remind him and all of us that in the wake of our 2017 tax reform, we had the strongest economy in 50 years. We had all-time record low unemployment. We had wages growing, growing fastest for the lowest-income workers. We had inflation that was modest. And, in fact, we were narrowing the gap between high-income and low-income people. Oh, and by the way, tax revenue collected by the Federal Government was growing.

I also want to touch on the important point that Senator Cramer correctly made. The CBO has not said that the Build Back Better bill will be fully paid for. He correctly noted that it would result in an increase in the deficit totaling $367 billion over the 10-year period, not counting any additional revenue that would be generated by additional funding for tax enforcement.

But when you take that number into account as well, which is $207 billion, you are still left with a $160 billion estimated increase in the deficit over the 10 years. But it is actually much worse than that because, by design, the spending in this bill is heavily front loaded with the expectation that supposedly expiring programs will actually be continued. If you look at CBO's numbers for the first 5 years, the deficit increases by $804 billion. That is $804 billion in additional deficits, which means $804 billion increasing in the debt we would take on, which is why our Democratic colleagues need such a big number by which to raise the debt ceiling and why they are so unwilling, so far, to use the tool that is available to them to pass the debt ceiling increase with a simple majority vote, the reconciliation tool, because it also requires that they specify just how much debt they want to run up.

So Mr. Chairman, I think it is important to set the record straight on those matters.

Chairman BROWN. I thank the Ranking Member. As the Ranking Member mentioned the debt ceiling, I would like to make a comment. The last time Congress dealt with the debt ceiling was in the summer of 2019. Twenty-seven Senate Republicans voted to raise the debt ceiling. So did I. So did, with a Republican President, a Republican House and a Republican Senate, more than 40 of my Democratic colleagues joined me and others to vote to do the right thing for our country.

There was such little concern about the debt when my colleagues passed the $2 trillion tax cut giveaway to the wealthy and corporations in 2017. Senator Toomey and I both sit on the Finance Committee and had those debates. They just were not concerned in those days.

And I would reiterate, as Secretary Yellen and the nonpartisan Congressional Budget Office have affirmed that this bill is in fact paid for. Secretary Yellen responded to greatly detailed questions with the answer to that, and we heard it. Now Republicans would rather hold our full faith and credit hostage than pay the bills that they have racked up, perhaps that we have all racked up, and that is not acceptable.

One final point on inflation. Just this morning, *Bloomberg* released a story where the headline pretty much says it all, "Fattest Profits Since 1950 Debunk Wage Inflation Story Of CEOs". "Fattest Profits Since 1950 Debunk Wage Inflation Story Of CEOs". The FDIC also just released its quarterly report. Shocking no one, bank profits are up.

The idea that these corporations cannot afford to pay workers higher wages, wages that actually reflect the value of the work they do to make these companies profitable, is ridiculous. They want the Fed to pull back. Let's be clear. By pull back, by tapering, what they really mean is they want fewer jobs available. That is what happened after the last crisis. The Fed pulled back its support too soon. Some families never recovered. We cannot make that mistake again.

For Senators who wish to submit questions for the record, they are due 1 week from today, Tuesday, December 7. Secretary Yellen and Chair Powell, you have 45 days to respond to any of those questions.

Thank you again. The Committee is adjourned.

[Whereupon, at 12:31 p.m., the hearing was adjourned.]

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

PREPARED STATEMENT OF CHAIRMAN SHERROD BROWN

Last week, many Americans sat down with family and friends to celebrate Thanksgiving. I want to take a moment to thank all the workers who made that possible, many of whom didn't get the day off—farm workers, grocery store workers, restaurant workers, auto workers, delivery workers, longshore workers, and so many others.

These are the people who make our economy work.

Under the Biden-Harris administration, our economy is bouncing back, and getting stronger every day. We created 5.6 million jobs this year. The unemployment rate has dropped to 4.6 percent, and weekly unemployment claims dropped to under 200,000 last week—the lowest level not just since the pandemic began, but in over 50 years, since 1969.

Of course raw jobs numbers alone don't tell the whole story—they don't tell you how good the job is, what kind of wage it pays.

And on that front, the news is even better. Workers are starting to finally get a little bit more power in our economy.

Last year, corporations called their workers essential, and then many turned around and cut hazard pay—if they ever offered it at all—and cut corners on safety, to make sure their profits didn't take a hit. Or worse—they laid off loyal, long-time employees in the midst of a public health crisis.

But they can't make those record profits without someone to actually do the work. And today, American workers are demanding what they've earned.

After years of stagnant wages, shrinking benefits, and no control over their schedules, workers are standing up for themselves and for each other, and asking for their fair share of the profits they create.

We just saw the United Auto Workers win better pay and better retirement benefits after a 5-week strike of John Deere—and it was good for non-union employees, who got a bump in pay, too.

For too long, corporate greed has kept paychecks down and prices up. Corporations "cut costs" at workers' expense to juice their quarterly earnings numbers, even when they're already plenty profitable. Executives reward themselves with record profits and stock buybacks, while arguing they can't afford to pay higher wages to anyone else, or can't afford to lower prices.

During a once in a generation global pandemic, despite the supposed "labor shortages" and inflation fears, Wall Street banks and corporations still managed to rake in record profits.

Profits at the biggest U.S. companies shot above $3 trillion this year, and the margins keep growing. And now, while working families are just starting to get back on their feet, megacorporations would rather pass higher costs onto consumers than cut into their profits.

To continue the progress we've made, we need to rethink that old system.

The Biden administration is creating jobs and bringing down costs for families to build a resilient economy for the long run.

The biggest costs families face have been rising for years, in many cases decades—housing, health care, prescription drugs, childcare, preschool.

Democrats' agenda will bring down all these costs.

We passed the American Rescue Plan, which got shots in arms and money in pockets—including the Child Tax Credit, the largest tax cut for working families ever that's helping millions of families afford childcare and keep up with the cost of living. Ninety percent of kids' families in Ohio are getting a $3,000 tax credit.

We passed the bipartisan infrastructure bill to upgrade our ports and transit systems, revitalize manufacturing here in the United States, secure supply chains, and create millions of good jobs.

Two weeks ago, the House passed Build Back Better—which will bring down childcare, housing, health care, and other household costs.

Now, the Senate must act.

The ongoing pandemic has also exposed longstanding weaknesses in our supply chain.

Global supply chain disruptions and increased demand as our economy rebounds are causing higher prices in certain sectors.

Secretary Yellen and Chair Powell are keeping an eye on this, and the more we can get the virus under control and understand its variants, the faster we will see those disruptions subside. We're already seeing some progress.

The Bipartisan Infrastructure Plan's investment in our ports will help speed up our supply chains in the long-run. And passing my Supply Chain Resiliency Act would further reshore and strengthen U.S. supply chains.

There's also an even simpler short-term fix available—corporations could lower their prices.

Executives could get a slightly smaller pay bump this year and stock buyback plans could be put on hold, instead of raising costs for customers.

There's no inexorable law that says profits for those at the top must continue to rise in perpetuity, even at the expense of everyone and everything else in the economy.

Corporations can get away with it, because they have too much power in the economy.

That makes it all the more vital that we not pull back on empowering workers.

The Fed cannot pump the brakes on our economic recovery too soon, before workers get a chance to fully rebound. And I mean all workers.

Women—who finally started to make significant job gains last month—were disproportionately forced out of the labor market, as many took on the extra jobs of full-time caregiver and homeschool teacher.

The Black unemployment rate is still twice that of White workers. That's unacceptable.

A resilient economy is an economy where full employment means everyone can get a job—a good job, that pays a living wage and allows you to build a career and raise a family.

And it's an economy where everyone shares in the benefits of growth, and where our progress isn't gambled away by Wall Street greed.

Instead of doing Wall Street's bidding, we all—the Fed, the Treasury Department, Congress—need to support the institutions that are hard at work serving their neighbors and contributing to the real economy.

That means supporting small business and creating pathways to home ownership. That means supporting institutions like MDIs and CDFIs, that serve communities that the banks ignore. That means making sure workers have power in our economy and share in the prosperity they create.

Corporations and their allies in this building want you to believe that we have to choose between high wages and low prices. That's a false choice.

We can have an economy where you earn a living wage and you can afford the things you need to live—childcare, health care, education, housing, groceries.

Our economy can be a reflection of our values as Americans—one that recognizes every worker's potential—from all walks of life and from every corner of our country.

President Biden recently announced his intention to renominate Chair Powell to lead the Federal Reserve, and Governor Lael Brainard to be Vice Chair.

They have helped lead our economy through the pandemic, and I will continue to work with both of them, and the next Federal Reserve nominees that reflect the diversity of our country.

I look forward to hearing from Secretary Yellen and Chair Powell on how they plan to help us build a resilient economy that works for everyone.

PREPARED STATEMENT OF SENATOR PATRICK J. TOOMEY

Thank you, Mr. Chairman.

Secretary Yellen and Chairman Powell, welcome.

Chairman Powell, congratulations on your renomination. Despite our disagreements, I look forward to supporting your confirmation.

When the pandemic hit in 2020, Chairman Powell acted swiftly to help stabilize financial markets and the economy. He also implemented a number of sensible regulatory reforms that helped to spur economic growth.

And for those who would criticize those efforts, I suggest they look at the past 2 years. Our economy experienced a severe real-world stress test during the worst days of the pandemic, but we've come out of it with the best capitalized banking system in American history.

While I support Chairman Powell's renomination, I'm very concerned about whom President Biden may nominate to fill other seats on the Fed's Board given some of the radical financial regulators he's nominated so far. Just consider his radical nominee to serve as the Comptroller of the Currency, the Nation's top banking regulator.

Members of the Fed Board ought to have exceptional qualifications and appreciation for the Fed's narrow statutory role on monetary policy and banking supervision.

We need Fed nominees who are focused not on social policy, but rather the alarming bout of inflation that we are currently experiencing. Inflation is at a 31-year high. Just last month, the consumer price index increased by 6.2 percent year over year.

Price hikes are everywhere, from the cost of a Thanksgiving meal, which rose by 14 percent over last year, to the pump, where gas has reached as high as $6 a gallon in some places.

Inflation is a tax that is eroding Americans' paychecks every day. Even though wages are growing, inflation is growing faster and causing workers to fall further and further behind.

I've been warning about the risks of higher and more persistent inflation since January. Unfortunately, the Fed has decided to continue its emergency monetary policy, adding fuel to the inflationary fire, long after the economic emergency had passed.

Earlier this month, I was glad to see the Fed finally announce a long-overdue taper of its bond-buying program. Quantitative easing should be used in emergencies only, and we are well past the need for such support.

Our economy took a nose dive in the second quarter of last year. But by the third quarter of 2020 it had largely recovered. Yet, here we are in November 2021 and the Fed's still buying more than $100 billion in bonds.

The Fed should have started tapering nearly a year ago. But instead it's expected to continue buying bonds through next June. And on interest rates, which are currently near zero, the Fed is still maintaining a wait-and-see approach.

I am somewhat relieved that Chairman Powell has recently recognized the heightened risks of higher and more persistent inflation and has indicated his determination to control it.

Unfortunately, the Biden administration and many Democrats in Congress are not willing to do their part to limit inflation. Instead, they're exacerbating the problem and blaming inflation on their usual suspects: greedy corporations.

Apparently, some of my colleagues believe companies were for years generously leaving money on the table and only now have thought to raise prices to maximize profit. This is a cynical fib meant to distract from the fact that Congressional Democrats' extreme Leftist policies are contributing to the price hikes hitting Americans' wallets.

Take energy prices for example. President Biden kicked off his presidency by taking measures to curb our Nation's energy supply. He terminated construction of the Keystone Pipeline, a tremendous source of oil. He placed an indefinite ban on new oil and gas leases on Federal land.

Meanwhile, on the demand side, the Administration and Democrats in Congress have propped up demand for energy with their March 2021 $1.9 trillion stimulus bill. It's no wonder then that Americans are seeing skyrocketing energy prices. When you decrease supply, but subsidize demand, prices go up. It's basic economics.

Unfortunately, the Administration has not learned its lesson. It's still pushing a multitrillion dollar reckless tax-and-spend plan that will contribute to more inflation and damage our economy. Its plan is a massive expansion of the welfare State and will be partially paid for by large tax increases that hurt American families, and make the U.S. a less competitive place to do business.

The intent of this plan is to fundamentally transform the relationship between the Federal Government and the middle class. It's about socializing many ordinary responsibilities that families have always assumed, including by providing free preschool, free paid leave, and free childcare.

Democrats are attempting to hide the unprecedented enormity of this tax-and-spending spree through budget gimmicks. According to the nonpartisan Penn-Wharton budget model, the House version of the Build Back Better plan will cost $4.6 trillion over 10 years if the bill's temporary provisions are made permanent, as the Democrats plan. As Senator Manchin has noted, Democrats are using "shell games" to hide the true cost of this legislation.

I hope that Democrats will reconsider their misguided efforts to double-down on the reckless spending that has contributed to the highest inflation that Americans have experienced in 31 years.

PREPARED STATEMENT OF JANET L. YELLEN

SECRETARY, DEPARTMENT OF THE TREASURY

NOVEMBER 30, 2021

Chairman Brown, Ranking Member Toomey, Members of the Committee: It is a pleasure to testify today.

November has been a very significant month for our economy, and Congress is a large part of the reason why. Our economy has needed updated roads, ports, and broadband networks for many years now, and I am very grateful that on the night of November 5, members of both parties came together to pass the largest infrastructure package in American history.

November 5th, it turned out, was a particularly consequential day because earlier that morning we received a very favorable jobs report—531,000 jobs added. It's never wise to make too much of one piece of economic data, but in this case, it was an addition to a mounting body of evidence that points to a clear conclusion: Our economic recovery is on track. We're averaging half-a-million new jobs per month since January. GDP now exceeds its prepandemic levels. Our unemployment rate is at its lowest level since the start of the pandemic, and our economy is on pace to reach full employment 2 years faster than the Congressional Budget Office had estimated.

Of course, the progress of our economic recovery can't be separated from our progress against the pandemic, and I know that we're all following the news about the Omicron variant. As the President said yesterday, we're still waiting for more data, but what remains true is that our best protection against the virus is the vaccine. People should get vaccinated and boosted.

At this point, I am confident that our recovery remains strong and is even quite remarkable when put it in context. We should not forget that last winter, there was a risk that our economy was going to slip into a prolonged recession, and there is an alternate reality where, right now, millions more people cannot find a job or are losing the roofs over their heads.

It's clear that what has separated us from that counterfactual are the bold relief measures Congress has enacted during the crisis: the CARES Act, the Consolidated Appropriations Act, and the American Rescue Plan Act. And it is not just the passage of these laws that has made the difference, but their effective implementation.

Treasury, as you know, was tasked with administering a large portion of the relief funds provided by Congress under those bills. During our last quarterly hearing, I spoke extensively about the State and local relief program, but I wanted to update you on some other measures.

First, the American Rescue Plan's expanded Child Tax Credit has been sent out every month since July, putting about $77 billion in the pockets of families of more than 61 million children. Families are using these funds for essential needs like food, and in fact, according to the Census Bureau, food insecurity among families with children dropped 24 percent after the July payments, which is a profound economic and moral victory for the country.

Meanwhile, the Emergency Rental Assistance Program has significantly expanded, providing much-needed assistance to over 2 million households. This assistance has helped keep eviction rates below prepandemic levels.

This month, we also released guidelines for the $10 billion State Small Business Credit Initiative program, which will provide targeted lending and investments that will help small businesses grow and create well-paying jobs.

As consequential as November was, December promises to be more so. There are two decisions facing Congress that could send our economy in very different directions.

The first is the debt limit. I cannot overstate how critical it is that Congress address this issue. America must pay its bills on time and in full. If we do not, we will eviscerate our current recovery. In a matter of days, the majority of Americans would suffer financial pain as critical payments, like Social Security checks and military paychecks, would not reach their bank accounts, and that would likely be followed by a deep recession.

The second action involves the Build Back Better legislation. I applaud the House for passing the bill and am hopeful that the Senate will soon follow. Build Back Better is the right economic decision for many reasons. It will, for example, end the childcare crisis in this country, letting parents return to work. These investments, we expect, will lead to a GDP increase over the long-term without increasing the national debt or deficit by a dollar. In fact, the offsets in these bills mean they actually reduce annual deficits over time.

Thanks to your work, we've ensured that America will recover from this pandemic. Now, with this bill, we have the chance to ensure America thrives in a postpandemic world.

With that, I'm happy to take your questions.

PREPARED STATEMENT OF JEROME H. POWELL

CHAIRMAN, BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

NOVEMBER 30, 2021

Chairman Brown, Ranking Member Toomey, and other Members of the Committee, thank you for the opportunity to testify today.

The economy has continued to strengthen. The rise in Delta variant cases temporarily slowed progress this past summer, restraining previously rapid growth in household and business spending, intensifying supply chain disruptions, and, in some cases, keeping people from returning to work or looking for a job. Fiscal and monetary policy and the healthy financial positions of households and businesses continue to support aggregate demand. Recent data suggest that the post-September decline in cases corresponded to a pickup in economic growth. Gross domestic product appears on track to grow about 5 percent in 2021, the fastest pace in many years.

As with overall economic activity, conditions in the labor market have continued to improve. The Delta variant contributed to slower job growth this summer, as factors related to the pandemic, such as caregiving needs and fears of the virus, kept some people out of the labor force despite strong demand for workers. Nonetheless, October saw job growth of 531,000, and the unemployment rate fell to 4.6 percent, indicating a rebound in the pace of labor market improvement. There is still ground to cover to reach maximum employment for both employment and labor force participation, and we expect progress to continue.

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

Pandemic-related supply and demand imbalances have contributed to notable price increases in some areas. Supply chain problems have made it difficult for producers to meet strong demand, particularly for goods. Increases in energy prices and rents are also pushing inflation upward. As a result, overall inflation is running well above our 2 percent longer-run-goal, with the price index for personal consumption expenditures up 5 percent over the 12 months ending in October.

Most forecasters, including at the Fed, continue to expect that inflation will move down significantly over the next year as supply and demand imbalances abate. It is difficult to predict the persistence and effects of supply constraints, but it now appears that factors pushing inflation upward will linger well into next year. In addition, with the rapid improvement in the labor market, slack is diminishing, and wages are rising at a brisk pace.

We understand that high inflation imposes significant burdens, especially on those less able to meet the higher costs of essentials like food, housing, and transportation. We are committed to our price-stability goal. We will use our tools both to support the economy and a strong labor market and to prevent higher inflation from becoming entrenched.

The recent rise in COVID–19 cases and the emergence of the Omicron variant pose downside risks to employment and economic activity and increased uncertainty for inflation. Greater concerns about the virus could reduce people's willingness to work in person, which would slow progress in the labor market and intensify supply-chain disruptions.

To conclude, we understand that 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 everything we can to support a full recovery in employment and achieve our price-stability goal.

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	Mar. 23, 2020	Dec. 31, 2020	750	14.3	0	0
Main Street Lending Program	Apr. 9, 2020	Jan. 8, 2021	600	16.6	13.5	15.7
Municipal Liquidity Facility	Apr. 9, 2020	Dec. 31, 2020	500	6.4	4.2	4.2
TALF	Mar. 23, 2020	Dec. 31, 2020	100	4.1	1.4	1.4

Note: The data are current as of November 24, 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 September 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" (November 26), 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 November 24.

RESPONSES TO WRITTEN QUESTIONS OF CHAIRMAN BROWN FROM JANET L. YELLEN

Q.1. Homeowners of color have faced disproportionate hardship over the course of the COVID–19 Crisis. What data will Treasury make public about who is receiving help through the States' Homeowner Assistance Fund programs and when do you expect to begin reporting that data? Will you commit to making public data that will allow the public to evaluate whether each State is equitably serving all homeowners seeking assistance?

A.1. Treasury is committed to making data available about who is benefiting from the Homeownership Assistance Fund (HAF) and other recovery programs. Treasury rapidly made available close to $1 billion to HAF Participants, 10 percent of each of their allocations, to immediately begin serving vulnerable homeowners and to support administrative efforts to launch their full programs. At least 18 States established pilot programs, and Treasury has begun gathering information about those pilot programs.

Treasury is currently in the process of approving HAF Plans submitted by eligible participants, including several States, the District of Columbia, Territories, and Tribes. In addition, Treasury has released interim reporting guidance for HAF participants. The first report from HAF Participants, a one-time interim report, will be due to Treasury by February 28, 2022, with quarterly reporting beginning in April 2022 and annual reports due for the first time in June 2022. After validating the accuracy of that data, Treasury will make reports available on the Treasury website. This is likely to begin after February 2022.

Q.2. Will Treasury commit to publishing each State's Homeowner Assistance Fund plan and any amendment to those plans in a central location? When do you expect to begin publishing those plans that are already approved?

A.2. Treasury anticipates beginning to publish approved State HAF Plans on the Treasury website in January 2022.

Q.3. Women have borne the brunt of the job losses during the COVID–19 Crisis. We created over half-a-million jobs in October and more than half of those job gains went to women. The National Women's Law Center estimates that it would take 8 months of this kind of job growth to gain back the millions of jobs lost since February 2020. Secretary Yellen, what can we do to make sure women can return to the work force with good jobs that help grow our economy? What progress have we made so far, and how is Treasury planning to address the issue?

A.3. Our labor force participation rate remains well below prepandemic levels. The pandemic has imposed considerable burdens on families and women, in particular, in childcare and elder care responsibilities. The American Rescue Plan's funding for State and local governments can also be used to support childcare to help parents get back to work.

Even before the pandemic, women's labor force participation had stagnated in the U.S. relative to other advanced countries. Providing more support for childcare through universal pre-K and augmenting our childcare infrastructure is imperative to growing our labor force and our economic potential over the next decade. The Build Back Better agenda will deliver universal pre-K and strengthen childcare, and Treasury will work to support the implementation of these programs.

Q.4. Leading up to the 2007–2008 Crisis, regulators failed to understand the risk that was building up and the interconnectedness of our financial system before it was too late. One of the lessons learned from the crisis was that regulators need to proactively seek to limit risk on the entire financial system. What parallels and distinctions do you see between the 2008 financial crisis and growing risks to our financial system from a climate risk financial crisis?

A.4. Following the 2008 financial crisis, the Dodd-Frank Act charged the Financial Stability Oversight Council (FSOC) with identifying and responding to emerging risks to the stability of the U.S. In its Report on Climate-Related Financial Risk, the FSOC identified climate change as an emerging and increasing threat to U.S. financial stability. The report includes over 30 specific recommendations to U.S. financial regulators, laying out necessary actions to identify and address climate-related risks to the financial system and promote the resilience of the financial system to those risks.

The 2008 financial crisis revealed in part the need for regulators to work together to assess financial risks more holistically and in a coordinated fashion. The FSOC's climate report represents a significant and important interagency effort to identify and consider climate-related financial risks across markets and institutions overseen or supervised by FSOC member agencies. Climate-related financial risks have the potential to impact the safety and soundness of regulated institutions, the integrity of financial markets, investor and consumer protection, and financial stability more generally. The report discusses the complex transmission channels linking climate-related transition and physical risks to the economy and financial sector, recognizing that climate-related shocks may be propagated by interconnections throughout the economy and financial system.

Climate change is not an abstract threat that we can afford to ignore. In 2021, there were 20 separate billion-dollar weather and climate disasters in the U.S., just two less than the record set in 2020. These disasters cost over $145 billion and took 688 lives. Climate-related disasters are expected to only increase as temperatures rise, as we have seen in recent decades. Adjusted for inflation, there were 29 billion-dollar weather and climate disasters in the 1980s, 53 in the 1990s, 63 in the 2000s, and 123 in the 2010s (NOAA National Centers for Environmental Information (NCEI) U.S. Billion-Dollar Weather and Climate Disasters (2022). *https://www.ncdc.noaa.gov/billions/DOI:10.25921/stkw-7w73*).

These events underscore the importance of the Administration's urgent, whole-of-Government effort on climate change and the need for the financial system to support an orderly, economywide transition toward the goal of net-zero emissions.

While U.S. financial regulators have begun to make significant progress in tackling these challenges, there is a substantial amount of work yet to be done, especially improving data and measurement and expanding capacity to address and manage climate-related financial risks.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR TOOMEY FROM JANET L. YELLEN

Q.1. *Cryptocurrencies*—Given the recent passage of cryptotax reporting provisions in the Infrastructure Investment and Jobs Act (P.L. 117-58), when do you anticipate Treasury will conduct a rulemaking on third party tax reporting related to cryptocurrencies?

A.1. Information reporting is a critical tool in increasing tax compliance and reducing tax evasion. Information reporting also helps taxpayers by providing them with the information that they need to prepare tax returns. When considering these requirements, Treasury and the IRS will engage in a robust notice-and-comment rulemaking process that will solicit input from affected industries and other interested parties before they make final determinations about the scope of application of new broker reporting rules for digital assets. This is a months-long process that requires engagement with experts in order to appropriately consider the utility of information that will be reported to taxpayers and the IRS and the cost of providing that information, among other issues.

Q.2. In the recently published President's Working Group (PWG) recommendations for stablecoins, the PWG noted that "in the absence of Congressional action . . . the agencies recommend that the Financial Stability Oversight Council (FSOC) consider steps available to it to address (stablecoin) risks." It is important that Congress weigh in on proper stablecoin policies, and that the American economy has certainty as to the Federal Government's actions. What steps will the PWG take to work with Congress on the appropriate legislative solutions before any administrative actions are taken related to FSOC designation?

A.2. The primary recommendation in the PWG report is for Congress to enact legislation to ensure that payment stablecoins, and payment stablecoin arrangements, are subject to a Federal prudential framework on a consistent and comprehensive basis. Since the publication of the report, Treasury staff has been engaged in active discussions with members of Congress and their staffs regarding the benefits and risks of stablecoins, regulatory gaps, and measures that would effectively address such gaps. We look forward to continuing those discussions.

Q.3. In its report, the PWG recommends that Congress enact legislation that requires stablecoin issuers to be insured depository institutions. Why are existing and successful partnerships between stablecoin issuers and insured depository institutions, in States such as New York and Wyoming, not sufficient when it comes to customer protection and avoiding run risks?

A.3. As discussed in the PWG report, currently, oversight of stablecoin is fragmented and inconsistent. Stablecoins are issued under a variety of supervisory overlays, and some issuers are effectively operating outside of the regulatory perimeter. Even where the issuer of a stablecoin is subject to effective oversight, supervisors may lack visibility into the broader stablecoin arrangement that supports the use of the stablecoin. As a result of these regulatory gaps, stablecoins pose risks related to runs, payment system disruptions, and concentration of economic power. A requirement for stablecoins to be issued by insured depository institutions, combined with authority for the supervisor of that issuer to set risk management standards for critical activities in the stablecoin arrangement, would help ensure that there are safeguards in place against these risks.

Q.4. At the Senate Banking Committee hearing on November 30, 2021, you stated that the PWG recommended that stablecoin issuers should be insured depository institutions because stablecoins have the potential to be used in payments. There are multiple companies that do not issue stablecoins that provide payment services, such as PayPal, Venmo, and Square.

Do you think that these companies should also be required to be insured depository institutions in order to provide payment services?

A.4. The PWG was convened to consider the risks and benefits of stablecoins, and to make recommendations for addressing any identified regulatory gaps. A requirement for stablecoin issuers to be insured depository institutions would help to address risks related to runs, payment system disruptions, and concentration of economic power in the context of stablecoins. Some observers have suggested that other payment service providers pose similar risks. Treasury staff are considering the similarities and differences between stablecoin issuers and other payment service providers, and would welcome the opportunity to engage further with you and your staff on this topic.

Q.5. If your answer is "no", then why do you think stablecoin issuers should be treated differently and required to be insured depository institutions?

A.5. Please see the response above.

Q.6. What factors lead you to this conclusion?

A.6. Please see the response above.

Q.7. Congress through statute has given U.S. financial market regulators—both the Securities and Exchange Commission (SEC) and Commodity Futures Trading Commission (CFTC)—considerable authority to issue exemptions from specific regulatory requirements enforced by those agencies so long as those exemptions serve the public interest (e.g., Section 36 of the Securities Exchange Act and Section 4 of the Commodity Exchange Act). The agencies also have used flexibility to interpret and provide guidance on these authorizing statutes and regulations.

Some attention has been paid by policy makers to crypto asset market participants acting outside of the U.S. regulatory perimeter. However, some market participants involved with crypto assets are taking steps to demonstrate that their market activity is conducted in a safe and sound manner, and are seeking exemptions or guidance that would result in more activity, not less, falling under the supervision of the U.S. financial market regulators.

Do you support the SEC and the CFTC providing appropriate exemptions and guidance to market participants as a means to facilitate more activity involving crypto assets coming under the supervision of those agencies?

A.7. Treasury supports the recommendation in the PWG report for Congress to promptly enact legislation to ensure that stablecoins are subject to effective oversight on a consistent and comprehensive basis. Treasury also supports efforts by the SEC and CFTC to effectively administer and ensure compliance with the Federal securities and commodities laws.

Q.8. I have previously asked you whether Treasury believes the Financial Stability Oversight Council (FSOC) has the authority to designate all stablecoin providers as financial market utilities (FMU) or payment, clearing, or settlement (PCS) activities. You replied:

> 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.

What would it mean for a stablecoin provider to be designated as a systemically important FMU for as engaging in systemically important PCS activity?

A.8. If activities conducted within stablecoin arrangements are, or are likely to become, systemically important PCS activities and have been designated by the Council, the appropriate financial regulator would be able to establish risk-management standards for financial institutions that engage in that activity. These risk management standards might include requirements in relation to the assets backing the stablecoin, requirements related to the operation of the stablecoin arrangement, and other prudential standards. Financial institutions that engage in designated PCS activities also would be subject to an examination and enforcement framework. Similarly, an entity that is designated as a systemically important FMU would be required to comply with risk management standards established by the appropriate financial regulator.

Q.9. What does a Federal framework for regulation of payment stablecoins look like? The PWG report on stablecoins recommends that Congress enact legislation to address stablecoin risks, but it does not explicitly state what that ought to look like. What specific measures would you recommend and why?

A.9. The legislative recommendations in the PWG report include: (a) a requirement for issuers of payment stablecoins to be insured depository institutions; (b) a requirement for custodial wallet providers to be subject to appropriate Federal oversight; and (c) measures to ensure that supervisors of stablecoin issued have the ability to set risk management standards for critical activities within a stablecoin arrangement, and to promote interoperability among stablecoins and between stablecoins and other payment instruments. Such legislation would provide an effective set of safeguards against run risk, payment system risk, and excessive concentration of economic power.

Q.10. In June 2021, the Basel Committee on Banking Supervision (BCBS) consulted on proposed guidance for the prudential treatment of crypto assets, including stablecoins.

Do you agree with the proposed recommendations regarding stablecoins and Group 2 crypto assets such as Bitcoin?

A.10. The June 2021 consultative document is a preliminary proposal for prudential treatment of bank exposures to digital assets. The proposal divides digital assets into two categories—a set of lower risk exposures referred to as "Group 1," and a set of higher risk exposures referred to as "Group 2," which includes bitcoin. Treasury supports efforts by the banking agencies to ensure that there are effective prudential requirements in place for bank exposures to digital assets, and that such requirements appropriately reflect the risks of the exposures involved.

Q.11. How does Treasury plan to work with the BCBS and other international bodies with respect to digital assets and stablecoins?

A.11. Treasury is not a banking regulator (the Office of the Comptroller of the Currency is an independent body within Treasury) and, therefore, does not participate in the Basel Committee on Banking Supervision. However, Treasury works through the Financial Stability Board and other multilateral groups of which it is a member to propose and advance policies that provide comprehensive oversight of digital assets, further common regulatory outcomes across jurisdictions, and to reduce opportunities for regulatory arbitrage. Treasury also supports efforts by the banking agencies to ensure that there are effective prudential requirements in place for bank exposures to digital assets, and that such requirements appropriately reflect the risks of the exposures involved.

Q.12. What steps are being taken by Treasury and the interagency groups in which Treasury participates to remain accessible to innovators and support the responsible growth of financial services and products enhanced by distributed ledger technology?

A.12. Treasury routinely meets with a wide variety of market participants, public interest groups, academics, and other stakeholders to inform our understanding of the services and products that could be supported by distributed ledger technology, as well as their implications for consumers, the financial system, and the broader economy. Interagency groups that Treasury participates in also have robust processes for public and industry engagement.

Q.13. *Government Sponsored Entities*—On January 14, 2021, Treasury and each of Fannie Mae and Freddie Mac (each, a GSE), acting through the Federal Housing Finance Agency (FHFA) as its conservator, entered into a letter agreement amending the Amended and Restated Preferred Stock Purchase Agreement dated September 26, 2008, between Treasury and the GSE (each, a PSPA). Pursuant to section IX of that letter agreement, Treasury committed to develop a proposal to resolve the conservatorships and transmit that proposal to both Houses of Congress on or prior to September 30, 2021. As of December 7, 2021, Congress has not received this proposal. When does Treasury expect to transmit this proposal?

A.13. Treasury remains focused on providing critical relief to homeowners and renters most impacted by the pandemic, including through its administration of funding for the Emergency Rental Assistance Program and the Homeowner Assistance Fund, and on promoting housing stability, which includes advancing housing policies that can sustainably increase the stock of affordable housing units for rent and ownership. In addition to addressing these urgent priorities, Treasury is formulating housing-finance policies in cooperation with interagency partners that expand fair and equitable access to home ownership and affordable rental opportunities, protect taxpayers, and promote liquid residential finance markets. Treasury has not yet adopted any new policy positions on the GSE conservatorships. I look forward to continuing our work across the Administration and with the Congress in support of these goals.

Q.14. Pursuant to section IX of that letter agreement, Treasury also "commit[ted] to work to restructure Treasury's investment and dividend amount in a manner that facilitates the orderly exit from conservatorship, ensures Treasury is appropriately compensated, and permits the [GSE] to raise third-party capital and make distributions as appropriate."

What actions does Treasury expect to perform to satisfy that commitment?

A.14. Treasury remains focused on providing critical relief to homeowners and renters most impacted by the pandemic, including through its administration of funding for the Emergency Rental Assistance Program and the Homeowner Assistance Fund, and on promoting housing stability, which includes advancing housing policies that can sustainably increase the stock of affordable housing units for rent and ownership. In addition to addressing these urgent priorities, Treasury is formulating housing-finance policies in cooperation with interagency partners that expand fair and equitable access to home ownership and affordable rental opportunities, protect taxpayers, and promote liquid residential finance markets. Treasury has not yet adopted any new policy positions on the GSE conservatorships. I look forward to continuing our work across the Administration and with the Congress in support of these goals.

Q.15. When will each of those actions be performed?

A.15. Please see the response above.

Q.16. Has Treasury retained any financial, legal, or other advisors to support Treasury's effort to resolve the GSEs' conservatorships or otherwise assess or modify its rights or obligations under the PSPAs?

If so, who did Treasury retain?

A.16. Treasury has not retained advisors for this purpose.

Q.17. *Reconciliation Legislation*—The Congressional Budget Office estimates that H.R. 5376, the "Build Back Better Act," would increase Federal outlays by nearly $1.7 trillion and increase net budget deficits by $367 billion over the 10-year 2022–2031 period. CBO also notes that the provision providing increased funding to the IRS would increase revenue by $207 billion, resulting in a net deficit increase of $160 billion.

However, the legislation contains many costly provisions that are temporary and thus sunset within the 2022–2031 budget window. Moreover, several nonpartisan institutions have estimated the true cost of the bill under the scenario where all temporary provisions are made permanent. The nonpartisan Penn Wharton Budget Model projects that the legislation would increase total spending by $4.6 trillion over the 10-year budget window if all of the temporary provisions are made permanent.

Without additional spending offsets or tax increases, net deficits would increase by almost $3 trillion over the 2022–2031 budget window. Notably, the legislation extends the expanded Child Tax Credit for just one year at a cost of more than $100 billion for 2022 alone. Conventional wisdom would suggest that making this provision permanent would cost more than $1 trillion over 2022–2031.

Regarding the expanded Child Tax Credit, you said earlier this year that, "I think this is something that's very important to continue" and that, "[i]t's a very important program that will do a huge amount to relieve child poverty." You have also called for Congress to make this expanded Child Tax Credit permanent. What, then, is the purpose of extending the expanded Child Tax Credit for just one year (2022), rather than making it permanent?

A.17. The Biden administration has made it a clear priority to fully fund the provisions of the Build Back Better Act, and we continue to be firmly committed to this goal. (For more detail, see this blog post: *https://home.treasury.gov/news/featured-stories/preliminary-estimates-show-build-back-better-legislation-will-reduce-deficits*)

Making the expanded Child Tax Credit permanent is an important goal that will serve the needs of America's families while also ensuring that the recent historic gains in childhood poverty reduction are truly lasting. We are committed to fully funding such extensions in subsequent legislation with appropriate revenue measures.

Q.18. What is the purpose of having other major provisions in the Build Back Better Act, such as Federal subsidies for childcare, be temporary rather than permanent?

A.18. The President's FY22 Budget proposed to extend the Child Tax Credit until the expiration of many provisions of the Tax Cuts and Jobs Act, since other provisions (such as various personal exemptions) may interact with the ideal Child Tax Credit amount, so the full package should be considered holistically. While Congress has opted for a shorter extension, we remain committed to working towards a fully funded permanent version of the expanded Child Tax Credit, and we look forward to working with Congress on appropriate revenue measures.

Q.19. If you believe these policies should be made permanent, then how would the Biden administration propose offsetting their cost?

A.19. Depending on the evolution of the Build Back Better legislation in the Senate, there will still be many appropriate revenue measures for future consideration. The President's FY22 Budget provides a good description of several important revenue measures that could be considered in the future.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR WARREN FROM JANET L. YELLEN

Q.1. I am concerned that bank employees do not feel adequately empowered to utilize whistleblower processes, given the ongoing reports of systemic wrongdoing at megabanks that were not discovered by regulators until the problems had already become major systemic problems, such as the fake account scandal at Wells Fargo. Do you agree that stronger affirmative protections for workers who speak up about wrongdoing, such as "just cause" protections against wrongful terminations, would help address this issue?

A.1. Banks should have protections in place to ensure that their employees can report unlawful or fraudulent practices without fear of retaliation. Robust whistleblower protections are a critical part of ensuring that incidents can be reported. Treasury is focused on building an economy that lifts workers up rather than weighing them down.

Treasury supports strong whistleblower protections and supports strong action by the Federal regulators to prevent and address wrongdoing by firms. Whistleblower protections should protect truth telling and promote a culture of transparency and accountability. Treasury is available to review proposals that could strengthen such employee protections.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR ROUNDS FROM JANET L. YELLEN

Q.1. I've heard from hundreds of South Dakotans about how difficult it is to get in contact with a human being at the IRS. As you know, the Biden administration released a memo outlining procedures to returning to work, which required agencies to submit their reentry plans by July 19, 2021.

Has your agency submitted its plan for reentry and is it publicly available?

A.1. In accordance with OMB Memo M-21-25 "Integrating Planning for a Safe Increased Return of Federal Employees and Contractors to Physical Workplaces With Post-Reentry Personnel Policies and Work Environment", Treasury submitted its plan for reentry to OMB on July 12, 2021. The plan is not publicly available.

Q.2. When will the IRS return to fully in-person operations?

A.2. Prior to the pandemic, the IRS workforce performed a combination of in-person, field, and remote work. In FY 2019, 47 percent of IRS employees participated in telework. In FY 2020, the most recent year for which data is available, 76 percent of employees participated in telework. The IRS completed the reopening of its facilities in July 2020, though some individual facilities have periodically closed since then in response to local health conditions. Employees whose duties cannot effectively be performed remotely have returned to the office. In addition, IRS has resumed field-based taxpayer contacts. The IRS continuously evaluates operational needs, health conditions, pandemic safety guidance, applicable laws and regulations, bargaining agreements, and other factors in determining the availability of telework and remote work for individual employees and work units.

Q.3. As of October 2, 2021, the IRS still had 6.8 million unprocessed individual 2020 tax year returns. Is there a plan in place to prevent this level of backlog in future years?

A.3. The IRS has faced some of the same challenges that everyone in the country has faced these past 2 years, and its mission has also been complicated by several rounds of COVID-relief legislation, some of it retroactive, and its work distributing three rounds of economic stimulus payments to the American people. Nonetheless, the IRS recognizes the need to reduce its inventory backlog and is working hard to do so now.

Despite the challenges it faces, the IRS has cut its backlog in half since filing season ended in May. Further, the IRS has used its remaining resources to hire thousands of new customer service representatives in the last several months in order to have additional personnel entering this filing season and reduce future backlogs. However, decades of underfunding the IRS have led to fewer personnel dedicated to service than at any time in the last decade. In part due to significant underfunding for taxpayer service activities, the IRS is also limited in the share of its existing workforce that can be used to answer phones or taxpayer correspondence. The lack of stable funding also means the IRS has not been able to invest in 21st technology that would dramatically improve the taxpayer experience-like working to automate stages in the processing of paper returns.

The challenges of the backlog and this coming season filing season illustrate the urgency of additional funding for the IRS. Had the agency entered the pandemic with adequate resources, it would have been well-equipped to continue to process returns and to serve taxpayers these last few years.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR BROWN FROM JEROME H. POWELL

Q.1. The practice of redlining excluded Black homeowners from acquiring equity, and its legacy today persists in expanding the racial wealth gap. The Brookings Institute reported in September that “homes in predominantly Black neighborhoods across the country are valued at $48,000 less than predominantly White neighborhoods for a cumulative loss in equity of approximately $156 billion.” A recent Federal Reserve Board OIG report noted that out of 343 consumer affairs examinations in 2019, 36 had a high-risk redlining matter. The Board also made only one fair lending referral to DOJ that year. The OIG Report and the Board’s response focused on the timeliness and efficiency of fair lending reviews, rather than whether the Board took actions to protect borrowers and prevent banks from engaging in redlining and other discriminatory lending practices. What specific benchmarks or metrics will the Board establish to ensure that that it effectively enforces fair lending laws?

A.1. To ensure effective enforcement of fair lending laws, the Federal Reserve starts by evaluating fair lending risk in every consumer compliance examination based on the risk factors set forth in the interagency fair lending examination procedures. When performing this evaluation, we look at risk factors related to potential discrimination in pricing, underwriting, redlining, and steering.

If warranted by our evaluation of these risk factors, we conduct additional analyses of a State member bank's policies and practices to assess the bank's compliance with fair lending laws and management of fair lending risk. If we have concerns about a pattern or practice of any type of lending discrimination, we require the bank to provide additional data and information. For example, if the risk profile of a bank warrants a more in-depth review of particular loan products, we would request additional information from the bank to determine whether there is a fair lending violation or whether the bank needs to enhance its risk management to avoid future violations.

When we find a violation, we cite it, and when we find a pattern or practice of fair lending violations, we refer it the Department of Justice as required by statute. In 2020, we referred two fair lending matters to DOJ, including a matter involving discrimination based on a pattern or practice of redlining in mortgage lending based on race or national origin.

However, citing violations and referring matters to the Department of Justice are not the only tools we use to ensure compliance with fair lending laws. Where we do not find a violation of law but are still concerned about potential fair lending risk, we issue supervisory findings directing banks to take corrective actions to strengthen their compliance management systems and prevent future violations. From 2018 to 2020, we issued more than 140 such findings. We follow up to evaluate compliance with these findings to ensure the bank has taken appropriate action.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR TOOMEY FROM JEROME H. POWELL

Q.1. The Federal Reserve has not yet published its digital dollar paper, which was initially expected to be released during the summer of 2021. My hope is that this report will be issued soon.

In drafting the report, what did you find to be the most difficult part of getting this right?

What is your personal perspective on the role of a potential digital dollar and stablecoins in our existing financial system?

A.1. On January 20, the Federal Reserve Board (Board) issued its discussion paper on central bank digital currency (CBDC) entitled "Money and Payments: The U.S. Dollar in the Age of Digital Transformation", that outlines our current thinking on digital payments, with a particular focus on the benefits and risks associated with CBDC in the U.S. context. The discussion paper reflects the Board's long-standing recognition of the important role that the private sector plays in the U.S. payment system.[1] We are seeking

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[1] See "The Federal Reserve in the Payments System" (issued 1984; revised 1990 and 2001), *https://www.federalreserve.gov/paymentsystems/pfs-frpaysys.htm.*

to stimulate broad conversation on whether and how a CBDC could improve an already safe, effective, dynamic, and efficient U.S. domestic payment system.

With respect to any possible central bank digital currency (CBDC), for the past several years, the Federal Reserve has been exploring the potential benefits and risks of CBDCs from a variety of angles, including technological research and experimentation. As we evaluate whether a U.S. CBDC would be appropriate, one critical question is whether a CBDC would yield benefits more effectively than alternative methods. These alternative methods could include improvements to the existing U.S. payment system. Alternative methods could also include well-designed and appropriately regulated stablecoins.

Payments innovations, including stablecoins, have the potential to improve efficiencies, increase competition, lower costs, and foster broader financial inclusion. Well-regulated, privately issued stablecoins could coexist with a CBDC. In the future, it is possible that CBDCs, stablecoins, and other forms of money could serve different needs or preferences. It is important for all forms of money to be well-designed and appropriately regulated. For that reason, the President's Working Group on Financial Markets, together with the other Federal banking agencies, has recommended that Congress act promptly to enact legislation that would ensure payment stablecoins and payment stablecoin arrangements are subject to a consistent and comprehensive Federal regulatory framework.

The Board has not made any decisions on whether to issue a CBDC. Moreover, the Board 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. The discussion paper represents the beginning of what will be a thoughtful and deliberative process with Congress and the broader public.

Q.2. The Federal Reserve has not made decisions on the applications of two State-chartered banks that would use stablecoins for payments seeking master accounts at the Federal Reserve. How is the Federal Reserve working to support innovative banks that are offering new financial services and products, such as use of, and access to, digital assets?

A.2. The Board continues to monitor financial services innovation involving digital assets, including the potential risks to the financial system. As you note, certain institutions have requested access to the payment services offered by the Federal Reserve Banks. To help achieve the goal of applying a transparent and consistent process for all access requests, as well as enable appropriate consideration of the ramification for the broader financial system, the Board proposed for public comment Account Access Guidelines for the Reserve Banks (proposed guidelines) to evaluate such requests. These proposed guidelines take into account the Federal Reserve's legal authority and reflect an analysis of its policy goals. With technology driving rapid change in the payments landscape, the proposed guidelines would ensure requests for access to Federal Reserve payment services are evaluated in a consistent and transparent manner that promotes a safe, efficient, inclusive, and innovative payment system, consumer protection, and the safety and soundness of the banking system. Specifically, the proposed approach is based on a foundation of risk management and mitigation and recognizes that risks to the Reserve Banks, to the payment system, to financial stability, and to the effective implementation of monetary policy, among others, may arise when an institution gains access to Federal Reserve accounts and services. The Board has received comments from a broad set of stakeholders, including institutions and trade associations representing both traditional and nontraditional charters, as well as chartering authorities, academics, think tanks, and members of Congress. The comments received reflect broad support for consistency and transparency in Reserve Bank evaluation of requests for accounts and services but differ in their views about how best to achieve those goals. Staff are analyzing the comments and working to finalize the guidelines.

In addition, the Board's regulatory and supervisory authority is generally limited to activities conducted by depository institution holding companies, State member banks, and their nonbank affiliates. The Federal Reserve is committed to supporting responsible innovation in banking. To that end, the Board is focusing on providing clarity on key supervisory and regulatory questions.

With respect to coordination with other Federal regulators on critical policy issues, the Board is working in conjunction with the Federal Deposit Insurance Corporation and the Office of the Comptroller of the Currency) (together, the agencies) to understand better the risks associated with digital assets-related activities, including those related to cryptocurrencies, and to develop an appropriate, coordinated response. As noted in the recent interagency statement on this topic, the agencies are engaging in policy work focused on providing greater clarity on whether certain activities related to crypto assets conducted by banking organizations are legally permissible and, if so, how these activities can be conducted safely. The agencies expect to provide further clarity on these issues throughout 2022.

The Board, also in conjunction with the other Federal banking agencies, works closely and frequently with the Financial Crimes Enforcement Network on matters relating to the Bank Secrecy Act and anti-money-laundering policy and regulatory issues, including those related to digital assets such as cryptocurrency. Further, the President's Working Group on Financial Markets,[2] together with the other Federal banking agencies, recently issued a report on stablecoins that includes recommendations for congressional action to holistically address the range of risks that could arise from stablecoin arrangements.

Q.3. In June 2021, the Basel Committee on Banking Supervision (BCBS) consulted on proposed guidance for the prudential treatment of crypto assets, including stablecoins.

Do you agree with the proposed recommendations regarding stablecoins and Group 2 crypto assets such as Bitcoin?

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[2] The Secretary of the Treasury, the Chair of the Board, the Chair of the Securities and Exchange Commission, and the Chairman of the Commodity Futures Trading Commission.

How does the Federal Reserve plan to work with the BCBS and other international bodies with respect to digital assets and stablecoins?

A.3. The Basel Committee on Bank Supervision (BCBS) received a wide range of comments on its consultative document, which are an important input to the Basel process. The Federal Reserve and other regulators are in the process of analyzing those comments. As the BCBS process continues, we expect the proposed capital framework will evolve to reflect stakeholder input.

As a general matter, BCBS takes a "same risk, same activity, same treatment" approach which the Federal Reserve supports. Developing a clear risk profile for crypto assets, however, is complicated by the novel nature of these assets and the lack of historical track record.

For that reason, it is important to approach bank activities with respect to these crypto assets carefully as the market grows and evolves and their risks are better understood. The Federal Reserve has significant resources dedicated to better understanding this asset class.

It is critical that the global regulatory community seeks to approach crypto asset related issues together to avoid fragmented approaches that lead to harmful arbitrage opportunities. Global engagement and consistency are critical, and the Federal Reserve Board (Board) continues to work with international bodies, such as the BCBS and Financial Stability Board, on crypto asset related issues as a mechanism for coordinated action.

Q.4. What steps are being taken by the Federal Reserve and the interagency groups in which the Federal Reserve participates to remain accessible to innovators and support the responsible growth of financial services and products enhanced by distributed ledger technology?

A.4. Please see response to Question 2.

Q.5. As of the termination of the Main Street Lending Program (MSLP) on January 8, 2021, the MSLP purchased a total of 1,830 loan participations totaling $16.6 billion. As of October 31, 2021, the MSLP experienced $12 million in loan losses and reserved an additional $2.3 billion as an allowance to cover estimated loan losses throughout the life of the MSLP program.

Please provide a list of MSLP borrowers responsible for these MSLP loan losses and identify the main factors contributing to the losses incurred (e.g., bankruptcy of a borrower).

A.5. The $12 million in Main Street Lending Program (MSLP) loan losses were recognized due to events such as bankruptcy filings or other material adverse business events that make liquidation or bankruptcy appear imminent for the borrower or have otherwise led to the acceleration of a loan by the lender. Due to ongoing loan workout activity and in light of other policy concerns, the Federal Reserve does not plan to publicly release the names of individual borrowers that have triggered loss recognition.

Q.6. Will the Federal Reserve pursue recovery of these loan losses? What are the policies and procedures governing those recovery efforts?

A.6. Since the beginning of the MSLP, the Federal Reserve has stated that "the Main Street SPV will make commercially reasonable decisions to protect taxpayers from losses on Main Street loans and will not be influenced by non-economic factors when exercising its voting rights under the Loan Participation Agreement or the Co-Lender Agreement, including with respect to a borrower that is the subject of a workout or restructuring."[3] In pursuit of recovery consistent with these principles, the Main Street SPV relies on lenders to service each Main Street loan in accordance with the standard of care set out in the Main Street loan participation agreement and in light of the duties of the lender under the Main Street servicing agreement. The Main Street SPV will also work with each lender in evaluating each credit situation and engage independent external workout advisory and legal services as appropriate to pursue recovery.

Q.7. Did the internal credit scoring model used to evaluate MSLP loans identify the loans that led to $12 million in losses as risky in advance of those borrowers defaulting?

A.7. Most of the $12 million in losses relate to loans that were rated as doubtful before the relevant event of default. The loans not categorized as doubtful defaulted due to unforeseen adverse circumstances that would not be considered in a credit scoring model (e.g., the unexpected death of a business proprietor).

Q.8. Did any lenders contribute to an outsized volume of loans included in the MSLP's $2.3 billion allowance for estimated loan losses?

A.8. At this time, the Federal Reserve staff does not see evidence of an individual lender contributing to an outsized volume of loans in the MSLP's allowance for estimated loan losses. The $2.3 billion allowance for estimated loan losses incorporates an amount for each loan in the Main Street portfolio. In accordance with the accounting policy of the Main Street SPV, loans with outstanding balances of $15 million or more that also meet certain triggers related to performance, credit rating, or value (generally those loans rated doubtful) are subject to an individual review and loss assessment. All other loan losses are estimated on a pooled basis using internal risk rating models that assess probability of default, loss given default and exposure at default for each loan given the rating and consideration of internal and external factors. Accordingly, each and every loan contributes at some level to the overall loss estimate.

Q.9. As you are aware, the Federal Reserve has had an increasing number of bank merger applications pending for many months without resolution. The longer the Federal Reserve takes to review and decide on merger applications, the greater the uncertainty it generates for applicants, potential applicants, and bank customers. The potential effect of this uncertainty is particularly concerning given the challenges currently facing the economy from inflation, ongoing effects of the pandemic, supply chain disruptions, and other economic uncertainties. As a prudential regulator, the Fed-

[3] See FAQ J.6.

eral Reserve should support, rather than impede, the functioning of the banking system and the economy.

What are the reasons for the widespread delays in the Federal Reserve's decisions on bank merger applications?

How will you ensure the Federal Reserve reviews and resolves pending and future merger applications promptly and efficiently?

A.9. The Board continues to process each application as expeditiously as possible and within the applicable statutory deadlines, while ensuring that decisions are based on a complete record. In December 2021, the Board approved three bank merger applications, and the Reserve Banks approved 17 additional bank merger applications under delegated authority.

The Board 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. These factors include the financial and managerial resources of the organizations involved and of the proposed combined organization; the convenience and needs of the communities to be served by the resulting institution; the Community Reinvestment Act performance of the involved depository institutions; the effectiveness of the parties in combatting money laundering; and the effects of the proposal on competition and financial stability. Every M&A application before the Board is reviewed carefully in view of each of these statutory factors. The Board will continue to focus on processing M&A applications in accordance with its statutory obligations.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR MENENDEZ FROM JEROME H. POWELL

Q.1. Earlier this month I sent you a letter along with Chair Brown and several of our colleagues asking you to work closely with the Boston and Dallas Boards of Directors and search committees to find and select diverse candidates for the open president positions.

Can you give us an update on how that search is going, including what specific steps you have taken to ensure diverse candidates are considered?

A.1. As you know, the appointment of a Reserve Bank president is formally an action of eligible Class B and C directors of the Bank's board, with the approval of the Board of Governors (Board). Before a final selection is made, a diverse pool of candidates is very important to a strong search process. The Federal Reserve Banks of Boston and Dallas (Banks) launched their president searches in October and November 2021, respectively.

Most recently, on February 9, the Federal Reserve Bank of Boston announced its selection of Dr. Susan M. Collins to serve as its next president, CEO, and participant in national monetary policymaking on the Federal Open Market Committee. This decision was reached after a rigorous search, selection by the eligible (nonbanker) members of the Bank's Board of Directors, and approval by the Board.

The Banks have both articulated strong commitments to conduct nationwide searches for highly qualified candidates from a broad, diverse slate of backgrounds from inside and outside the Federal

Reserve System. Furthermore, both Banks formed diverse search committees and hired national search firms to help identify candidates. In addition, the Office of Minority and Women Inclusion (OMWI) directors at the Board and the two Reserve Banks have served as advisers to the search committees. The Banks also have used diverse interview panels to ensure that different points of view and opinions are part of the hiring decision. Additional search committee efforts have included outreach to stakeholders and the public for feedback and input through public websites and townhalls, and both Banks have invited the public to submit potential candidates for nomination. For example, after a broad and diverse public outreach effort seeking input on desired characteristics in candidates; inviting referrals, nominations, and applications; and encouraging sharing of the opening within networks, on October 25, the Federal Reserve Bank of Boston's search committee and search firm held meetings with three of the Bank's advisory councils (the New England Advisory Council, the Community Development Advisory Council, and the External Diversity Advisory Council) and gather additional input and perspective on the attributes and skillsets that advisory group members see as important in the next Boston Fed president. And, on January 13, the Federal Reserve Bank of Dallas hosted a virtual town hall that was open to the public to discuss and answer questions about the presidential search process. Panelists included the cochairs of the presidential search committee, and a representative of the global search firm Egon Zehnder that is assisting in the search for candidates. Participants were able to submit questions during the moderated discussion, and the recorded discussion is available on the Bank's public website. [1]

I would note that experience in recent years has shown that diverse boards and diverse search committees tend to consider and appoint diverse leaders. Relevant research also underscores the importance of diversity—background, experience, and profession—on boards and search committees. Such diversity has been achieved in recent years in the Federal Reserve System, as the Board of Governors through its direct appointment of Class C directors has fostered appreciable new diversity in Reserve Bank boards, including those in Boston and Dallas.

The Board, through our Committee on Reserve Bank Affairs, has been involved in ongoing communication with the respective search committees about the recruitment process, including public engagement strategies.

Q.2. What lessons have you taken from this process for improving minority recruitment at the Fed, particularly for senior leadership positions?

A.2. The Federal Reserve and other organizations make better decisions with a diverse group around the table, and I remain committed to working with Reserve Bank directors and presidents to further our engagement with various communities throughout each of the 12 districts to develop pipelines for future leadership roles at the Federal Reserve.

[1] See *https://www.dallasfed.org/fed/presidentialsearch.*

To foster diversity, we must develop an overall culture of inclusion at all levels, starting at the top. As Chair, I have internally and externally stated my strong personal belief in and support for a diverse and inclusive environment, and I have taken a number of steps to work towards achieving greater diversity and inclusivity that is also part of the Board's 2020–23 Strategic Plan. I have led quarterly meetings with staff at many levels from within the Board and the System to discuss and assess our progress in advancing diversity and economic inclusion. These meetings are a priority for me and my colleagues on the Board.

I also speak regularly with staff about the importance of fostering diversity and inclusion. I meet with the Board's Director of the Office of Women and Minority Inclusion on a quarterly basis, and I have met with the chairs and cochairs of each of the Board's seven Employee Resource Groups on a number of occasions. To see where the Board could learn from others, we have also hosted business and nonprofit leaders who served on Reserve Bank boards of directors to discuss what has worked well in developing a culture of diversity and inclusion at their organizations.

I have encouraged and strongly supported the considerable outreach we do to diverse candidates in our recruiting of staff. This includes participating in minority recruitment events at Historically Black Colleges and Universities, Hispanic-Serving Institutions, and Hispanic professional conferences and career fairs. Our outreach is particularly notable as we hire recent college graduates as full-time research assistants, a position which can be an important step towards a career in economics. I would note that the Board has shown a significant increase in Hispanic hiring from 4 percent in 2020 to 10 percent in 2021. To build on this success, we will work to strengthen outreach and networking initiatives with organizations such as American Society of Hispanic Economists, Association of Latino Professionals for America, National Hispanic Corporate Council and Prospanica.

We are also reviewing our recruiting and hiring practices to identify and implement ways in which we can further increase the pool of diverse qualified candidates. As a result of our ongoing review, we have started to broaden the research specializations within economics from which we have typically hired economists. Recruiting from a broader set of research areas not only may draw more diverse candidates, but also better supports our mission by giving us broader skill sets and perspectives.

Under my leadership as Chair, the Board has leveraged its award-winning internship program to offer students on the job experience and learning and to create a diverse job candidate pool for our entry-level positions. The Board has also implemented job board and resume database access to expand diversity sourcing initiatives with the National Black MBA Association and the National Society of Black Engineers.

Over the past 4 years, my colleagues and I have worked to develop the pipeline of economists from under-represented groups, including through outreach to students at many levels. We have welcomed diverse groups of high school, undergraduate, and graduate level students to the Board, both in person and through online events, to discuss career opportunities, the work that we do, and diversity in the profession. We are collaborating closely with the American Economic Association (AEA) and with Howard University, including by committing staff resources over the next 5 years to teach an Advanced Research Methods class to undergraduate and masters level students at the AEA Summer Training Program, which is being hosted by Howard University.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR WARREN FROM JEROME H. POWELL

Q.1. I am concerned that bank employees do not feel adequately empowered to utilize whistleblower processes, given the ongoing reports of systemic wrongdoing at megabanks that were not discovered by regulators until the problems had already become major systemic problems, such as the fake account scandal at Wells Fargo. Do you agree that stronger affirmative protections for workers who speak up about wrongdoing, such as "just cause" protections against wrongful terminations, would help address this issue? Can you commit to working with other prudential regulators and the CFPB to develop stronger protections for frontline employees who speak up when abusive managers or bad business policies drive bank wrongdoing?

A.1. The Federal Reserve encourages any person with information regarding possible unsafe or unsound practices or violations of law, including consumer abuses or financial mismanagement, by any institution the Federal Reserve supervises or any director, officer, or employee of such institution to report that information to Federal Reserve staff. Whistleblowers may elect to report information anonymously to the Federal Reserve, and in all circumstances, the Federal Reserve will protect the whistleblower's identity as confidential supervisory information to the extent permissible by law. [1]

Congress has granted whistleblowers employed by insured depository institutions certain statutory protections against retaliation. Under section 932 of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, a whistleblower employed by an insured depository institution may not be discharged or otherwise discriminated against for providing information to the Federal Reserve and other agencies with supervisory and law enforcement responsibility. [2] The Federal Reserve takes seriously claims of retaliation against whistleblowers and encourages any claim of retaliation be reported to Federal Reserve staff.

Whistleblowers take substantial professional and financial risk to bring forward information regarding potential misconduct in the institutions that the Federal Reserve supervises. The Federal Reserve is committed to ensuring that they are protected from retaliation.

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[1] There may be some circumstances where the identity of the whistleblower may be disclosed, including in response to other Federal or State financial institution supervisory agencies, other law enforcement agencies, or in response to Federal or State grand jury, criminal trial, or Government administrative subpoenas. See generally Rules Regarding Availability of Information, 12 CFR Part 261.

[2] See 12 U.S.C. §1831j.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR VAN HOLLEN FROM JEROME H. POWELL

Q.1. Chair Powell, Acting Comptroller of the Currency Michael Hsu has announced that the OCC plans to issue climate-risk management supervisory expectations for large banks by the end of the year. Does the Federal Reserve intend to join this guidance? Why or why not?

A.1. Climate change poses significant challenges for the U.S. economy and financial system, with implications for the structure of economic activity, the safety and soundness of financial institutions, and the stability of the financial sector more broadly. While primary responsibility for addressing climate change itself rests with elected officials, we are committed to working within our existing mandates and authorities to address the implications of climate change.

We are focused on addressing the implications of climate change through the lens of our mandates related to supervision and regulation of financial institutions and the stability of the broader financial system. The Federal Reserve is committed to ensuring that supervised firms have strong risk management capabilities to promote their resilience to all risks, including climate-related financial risks. From a financial stability perspective, we are working to rigorously identify and measure links between climate change and financial stability, including by examining how climate change can increase financial sector vulnerabilities.

We look forward to reviewing comments on the draft principles released by the Office of the Comptroller of the Currency for comment on December 16, as we continue to move toward the development of an interagency set of supervisory expectations for the management of climate-related financial risks with a focus on large banks. We believe that a consistent approach across bank regulatory agencies will best support the effective management of these risks.

Q.2. Chair Powell, Acting Comptroller Hsu has also announced that the OCC will begin examining how large banks are addressing climate risk as part of their examinations starting in 2022. What is the Federal Reserve planning to do on assessing the climate risk that banks face in 2022?

A.2. In 2021, the Federal Reserve announced the formation of the Supervision Climate Committee (SCC) to promote the resilience of supervised firms to climate-related financial risks. The SCC is actively engaging with a wide range of stakeholders to understand the potential impact of climate change on the banks we supervise. Our engagement includes in-depth discussions with large supervised firms on their current approaches to managing the financial risks associated with climate change and their use of scenario analysis to better understand physical and transition risks. We are also engaged in international work on these topics through our participation in the Network for Greening the Financial System, the Financial Stability Board, and our leadership role in cochairing the Basel Committee on Banking Supervision's Task Force on Climate-Related Financial Risks.

We are planning to continue this external engagement this year, including in-depth discussions with large supervised firms on a variety of climate-related topics. The SCC will also continue to undertake its own analysis to better understand bank exposures to physical and transition risks. Our engagement and analysis will provide the necessary foundation as we move toward the development of an interagency set of supervisory expectations for the management of climate-related risks with a focus on large banks.

Q.3. Chair Powell, last year the Federal Reserve joined the Network for Greening the Financial System (NGFS) and has since formed a Supervision Climate Committee. Other members of the NGFS have released supervisory expectations for how banks will address climate risk and have begun conducting examinations of how well banks align with supervisory expectations. The results of the European Central Bank's initial supervisory review reveal that banks face material risks from climate risk, yet have failed to meet the supervisory expectations laid out by regulators.

Do you have similarly comprehensive information about how U.S. banks are positioned on vulnerability to climate risk relative to their European counterparts?

A.3. The SCC is actively engaging with a wide range of stakeholders to understand the potential impact of climate change on the banks we supervise. As noted above, our engagement includes in-depth discussions with large supervised firms on their current approaches to managing the financial risks of climate change and their use of scenario analysis to better understand physical and transition risks. From these discussions, we know that large banks are developing frameworks and tools to assess the financial risks and opportunities related to climate change. Large supervised firms are actively incorporating physical and transition risks into their existing risk management frameworks, with emphasis on governance, risk identification and risk measurement. The measurement of climate-related risks, however, poses unique challenges that supervisors and supervised institutions are working to overcome, including those related to data, uncertainty, and time horizon.

The SCC is undertaking its own preliminary analysis to better understand bank exposures to physical and transition risks, potential indirect effects of climate change that can impact supervised firms, and trends in insurance markets and risk mitigation. This analytical work leverages expertise from across the Federal Reserve System (System), including knowledge of the effects of physical and transition risks on local economies, households, and businesses. Scenario analysis—where the resilience of financial institutions and the financial system are assessed under different hypothetical climate scenarios—is an emerging tool in assessing climate-related financial risks. The Federal Reserve is developing a program of scenario analysis to evaluate the potential economic and financial risks posed by different climate outcomes.

Q.4. Chair Powell, the New York Department of Financial Services (NYDFS) recently put out guidance requiring State-based insurers to conduct scenario analysis for climate risk. In its guidance, the NYDFS wrote "Technology exists today—provided by rating agencies, asset managers, and specialty service providers—to quantitatively assess the resilience of investment portfolios to transition and physical risks under a range of scenarios." Moreover, financial regulators internationally have already begun developing climate stress tests for banks, and according to a recent report by Reuters, many big bank CEOs see climate risk regulation as inevitable.

What is your plan for utilizing available technology to develop the strongest possible climate risk supervision framework?

A.4. The Federal Reserve leverages expertise from across the System to undertake its own analytical work to better understand exposures of supervised firms to physical and transition risks, potential indirect effects of climate change on the broader economy, and trends in insurance markets and risk mitigation.

The Federal Reserve is also working to develop an effective scenario analysis program around climate change separate from our existing regulatory stress testing regime. This is a complex undertaking, and we are identifying additional data, technology, and modeling resources that are needed to support our efforts to understand the financial and economic risks associated with climate change. The Federal Reserve is also developing our capacity to incorporate climate-related data sets that will enhance our understanding of these risks. This includes, for example, increased granularity on geographic exposures of supervised firms and new approaches to estimate exposures to transition risks. These insights will inform the development of our supervision framework.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR SINEMA FROM JEROME H. POWELL

Q.1. Do you anticipate that tapering corporate bond purchases at the pace you outlined to the Committee in February will help address inflationary pressures, and if so, to what extent?

A.1. The elevated levels of inflation we have experienced reflect a mismatch between demand and supply. Some of the sectors of the economy that have experienced very strong demand, especially those involving goods, have hit supply constraints. We expect inflation to start coming down this year as a result of both an increase in supply and a moderation in demand. That said, we do not think that the current imbalance between demand and supply will be fully resolved this year. Elevated inflation is currently the foremost threat to the achievement of maximum employment.

The effects of monetary policy on inflation and the labor market generally depend on both current and expected future settings of the Federal funds rate as well as how the size and composition of the Federal Reserve's balance sheet are expected to evolve over time. The Federal Open Market Committee's (FOMC) policy actions and communications with both the policy rate and balance sheet tools help ensure that our policy addresses inflation pressure, supports progress toward maximum employment, and is positioned to address the full range of plausible outcomes.

Our asset purchases were enormously important at the beginning of the recovery in restoring market function. Thereafter they were an important macroeconomic tool to support demand. In light of inflation developments and improvement in the labor market, the economy no longer needs this highly accommodative policy. Following our November FOMC meeting, we started tapering our asset purchases, and at our December meeting we decided to step up our pace of tapering. At our January meeting, we reaffirmed this plan, which will see our net asset purchases conclude in early March.

As always, the FOMC's monetary policy actions will be guided by our mandate to promote maximum employment and stable prices for the American people. The Federal Reserve is committed to using its full range of tools to support the U.S. economy in this challenging time.

Q.2. There has been speculation about what "full employment" in the Federal Reserve's dual mandate may now mean, given that the economy may have been permanently altered by the pandemic. Do you believe there have been structural changes to the labor market due to the pandemic, such that the Fed may need to look at a new understanding of what constitutes "full employment"?

A.2. The maximum level of employment consistent with price stability evolves over time for reasons unrelated to monetary policy. Various factors that affect labor supply, including those related to the pandemic, are important drivers of the level of maximum employment. In addition, maximum employment cannot be directly observed. We therefore consider a wide variety of indicators in assessing where the economy stands in comparison with our goal of maximum employment, including headline unemployment rate, other official measures of unemployment, labor force participation, measures of hours worked and part-time work, and outcomes for various demographic groups.

The kind of labor market we had before the pandemic will require a long, sustained expansion, which will in turn require maintaining price stability and well anchored longer-term inflation expectations. In that sense, higher inflation may be the single biggest threat to a lengthy, sustained expansion and to getting back to a strong labor market and keeping it for as long as possible.

The postpandemic labor market may look different from before. We will continue to do our best to understand the changes in the economy and remain committed to adjusting our policies as appropriate to promote achievement of both our maximum employment and price stability goals.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR SCOTT FROM JEROME H. POWELL

Q.1. I am not unique among my colleagues in my concern that banking services in our communities not suffer interruptions or impairment, not just because of the pandemic directly, but also because of upheavals in hiring markets and other parts of local economies. A number of bank merger deals that were announced many months ago still await Federal Reserve approval, and these banks in the meantime have to deal with uncertainties for their customers, communities, and especially their employees.

What will the Federal Reserve do to resolve these matters promptly and put an end to these uncertainties?

A.1. The Federal Reserve (Board) continues to process each application as expeditiously as possible and within the applicable statutory deadlines, while ensuring that decisions are based on a complete record. In December 2021, the Board approved three bank merger applications, and the Reserve Banks approved 17 additional bank merger applications under delegated authority.

The Board 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. These factors include the financial and managerial resources of the organizations involved and of the proposed combined organization; the convenience and needs of the communities to be served by the resulting institution; the Community Reinvestment Act performance of the involved depository institutions; the effectiveness of the parties in combatting money laundering; and the effects of the proposal on competition and financial stability. Every M&A application before the Board is reviewed carefully in view of each of these statutory factors. The Board will continue to focus on processing M&A applications in accordance with its statutory obligations.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR ROUNDS FROM JEROME H. POWELL

Q.1. As reported by the Minneapolis Fed, commercial banks in South Dakota and across the Ninth District have experienced unprecedented deposit growth and lower demand for loans since the onset of the pandemic. The combination of relief efforts, shifts in spending by consumers and businesses and the search for profitability in a low-interest-rate environment has led to significant changes in bank balance sheets. Specifically, banks have had fewer options for deploying cash. To address this problem, around this time last year the Fed provided regulatory relief to banks by allowing institutions with under $10 billion in assets to calculate their asset size for applicable thresholds based on total assets as of December 31, 2019. That relief expires at the end of this year. Although many thought this problem would have taken care of itself, banks are still feeling the temporary unintended consequences of the Government aid provided during the pandemic. The NCUA has already announced that credit unions will receive extended relief. Is the Fed considering extending its regulatory guidance issued in November 2020?

A.1. Community banking organizations experienced substantial asset growth at the beginning of COVID–19, in part due to participation in various programs instituted by the Federal Government. In response, the Federal banking agencies promulgated an interim final rule in December 2020 that provides temporary relief for community banking organizations that crossed certain asset-based regulatory and reporting thresholds of $10 billion or less after December 31, 2019. The interim final rule provided that the relief lasted through December 31, 2021, therefore allowing community banking organizations sufficient time to either reduce their balance sheets or prepare for higher regulatory and reporting standards. The decision to provide further relief reflected a balance between certain community banking organizations' need for additional time to prepare for higher regulatory and reporting standards and the consequences of the unlevel playing field that further relief would cause for similarly sized banking organizations. While the Federal Reserve Board and other Federal banking agencies did not extend the temporary regulatory and reporting threshold relief, certain regulatory and reporting requirements within the scope of the interim final rule provide a banking organization that becomes newly subject to a requirement a transition period before it must comply with the requirement. Banking organizations that become newly subject to requirements due to the expiration of relief under the interim final rule would qualify for those transition periods.

ADDITIONAL MATERIAL SUPPLIED FOR THE RECORD

WASHINGTON POST ARTICLE SUBMITTED BY SENATOR TILLIS

The Washington Post *Democracy Dies in Darkness*

Biden's claim that Nobel winners say his plan would 'reduce inflation'

By Glenn Kessler

The Fact Checker

November 4, 2021 at 3:00 a.m. EDT

"You had a total of 14 — I think it was 14 — Nobel laureate economists in economics saying this is going to — what I'm proposing is going to reduce the inflation, et cetera."

— President Biden, remarks at a news conference in Rome, Oct. 31

"I had 17 Nobel laureates in economics send me a letter recently saying my proposals would actually reduce inflation, diminish inflation."

— Biden, interview at CNN Town Hall, Oct. 21

"Seventeen Nobel laureates spontaneously — Nobel laureates in economy — sent me a letter three weeks ago saying it will also reduce, not increase inflation."

— Biden, speech in Scranton Pa., Oct. 20

"By the way, 15 Nobel laureates in economics released a letter yesterday arguing that exact same point. They said, and I quote — and this is from 15 Nobel laureates in economics — quote, 'Because this agenda ... ' — the one I'm talking about, mine — 'Because this agenda invests in long-term economic capacity and will enhance the ability of more Americans to participate productively in the economy, it will ease long-term inflationary pressures.' It will ease it."

— Biden, remarks on the U.S. economy, Sept. 16

This is an example of how a carefully worded sentence can, over time, get morphed into shorthand that might lose some nuance.

In September, back when Biden's "Build Back Better" plan called for $3.5 trillion in spending on top of a bipartisan infrastructure plan, 15 recipients of the Nobel Memorial Prize in Economic Sciences released a joint letter praising his initiative. (The number later grew to 17.)

"While we all have different views on the particulars of various economic policies, we believe that key components of this broader agenda are critical — including tax reforms that make our tax system more equitable and that enable our system to raise the additional funds required to facilitate necessary public investments and achieve our collective goals," the letter said. "Because this agenda invests in long-term economic capacity and will enhance the ability of more Americans to participate productively in the economy, it will ease longer-term inflationary pressures."

With inflation a growing concern for many Americans, the last line was a political gift for the White House. (It has also been cited by other Democrats.) Biden read that line verbatim in his first reference to the letter. But then over time, his references to the letter have morphed into something that might suggest to listeners the plan would reduce inflation now, not the potential for inflation in the future.

Moreover, Biden's plan has changed significantly. The bipartisan infrastructure plan remains in place — it just needs to pass the House — but the rest of the spending proposal has been pared back to $1.75 trillion. The tax changes lauded in the letter — higher taxes on the wealthy and corporations — have been largely dropped. Lawmakers may even tinker with a 2017 tax provision that limited the deduction of state, local and property taxes in a way that would benefit the wealthy.

So the Fact Checker sent an email to every signer, asking two questions:

1. Does the "longer-term inflationary pressures" phrase mean the Biden plan would reduce inflation?

2. Have the changes in the proposal affected how you view the plan's impact on long-term inflationary pressures?

We have heard from six signers so far and have collected their responses below. We will update this as we hear from more. The names are listed in the order in which the signers are listed in the letter. None of the responses indicated that any signer was backing away from the letter — but some indicated that the proposed changes have lessened the potential impact on inflationary pressures.

Joseph Stiglitz, professor, Columbia University

Because this agenda invests in long-term economic capacity and will enhance the ability of more Americans to participate productively in the economy, it will ease longer-term inflationary pressures.

This simply means what it says: it will have positive "supply side effects" which reduce inflationary pressures.

My judgment was that in the earlier version, with almost all of the additional spending "paid for," the net demand side effects were likely to be minimal. Obviously, without detailed knowledge of the final package, it's not possible to do a precise overall assessment. One needs to look at both what taxes/revenue measures have been taken out, what spending measures have been taken out, and to what extent it continues to be paid for.

From the reports that I've seen, the statement is likely to be still true, though with the scaling down of the measures, the magnitudes of the effects are reduced.

Peter Diamond, professor, Massachusetts Institute of Technology

The key part of the prior sentence is: public investments.

Investments in physical and human capital raise potential output. Actual inflation depends on multiple factors, including demand relative to supply (the item referred to in the letter). Many other elements are involved, making it hard to separate out the size of the impact on inflation of any one element.

If by reduce inflation you mean inflation would be lower than otherwise, that is consistent with the statement. If you mean that inflation will go down in the period after the bills are passed, that is not an implication of these slow-working effects.

Out of a context, "reduce inflation" has both meanings — lower than otherwise and going down.

Eric S. Maskin, professor, Harvard University

I don't know enough about the bill as it now stands to comment on whether it is likely to ease inflationary pressure.

Christopher Sims, professor, Princeton University

The package would still reduce "longer-term inflationary pressures," even with some of its revenue-raising measures reduced, because of the supply-side effects it lists. But in the medium term, there are demand-side sources of inflationary pressure as well.

A version of the Biden package including some substantial and politically difficult revenue-raising measures would probably not add to medium-term inflationary pressures. Cutting revenue-raising components out of the Biden package increases the medium-term pressures.

This would make the Fed's job more difficult and might therefore raise the risk (relative to the risk with the original Biden package) of either a more extended period of above-target inflation or of a recession. But the risk to the economy of not passing this legislation, thereby reinforcing the view that our institutions can't act to deal with our central economic problems, is much greater.

Sir Angus Deaton, professor, Princeton University

I think the letter means what it says which is clear enough. I don't know what "it would reduce inflation" means. Certainly not in the next few months. The package would do more without the giveaways to the wealthy, but would I still sign for a compromise package? Probably.

Daniel McFadden, professor, University of California at Berkley

The Nobel letter talks about long-run pressure on inflation, and opines that improving the nation's infrastructure, both physical and human capital, will reduce this pressure. This is sound and uncontroversial economics — increasing supply and capacity reduces the bottlenecks that fuel inflationary surges.

The inflation we are seeing right now seems to be coming primarily from supply and coordination issues across the world economy as we emerge from the covid pandemic, and to some degree from the pent-up demand coming from wealth accumulation during the pandemic, but not substantially from overall excess demand.

There is a risk, however, that the current surge will morph into more general inflationary expectations. Increasing current government deficits by a shakily financed BBB could add to this. The responsible public policy is to push forward with the infrastructure bill and BBB program, but tie initiation of investments authorized in these bills to financing that is consistent with managing current inflationary pressure.

(About our rating scale)

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