## CONTENTS

THURSDAY, FEBRUARY 17, 2022

<table>
<thead>
<tr>
<th>Page</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Opening statement of Chairman Brown</td>
</tr>
<tr>
<td>41</td>
<td>Prepared statement</td>
</tr>
<tr>
<td>4</td>
<td>Opening statements, comments, or prepared statements of:</td>
</tr>
<tr>
<td>42</td>
<td>Prepared statement</td>
</tr>
<tr>
<td>46</td>
<td>Responses to written questions of:</td>
</tr>
<tr>
<td>47</td>
<td>Senator Cortez Masto</td>
</tr>
<tr>
<td>47</td>
<td>Senator Daines</td>
</tr>
</tbody>
</table>

**WITNESSES**

Cecilia Rouse, Chair, Council of Economic Advisers; accompanied by Jared Bernstein, Member, Council of Economic Advisers; and Heather Boushey, Member, Council of Economic Advisers
THE STATE OF THE AMERICAN ECONOMY: A YEAR OF UNPRECEDENTED ECONOMIC GROWTH AND FUTURE PLANS

THURSDAY, FEBRUARY 17, 2022

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

The Committee met at 10 a.m., via Webex and in room 538, 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.

Every day, Americans get up, go to work, and do their jobs. But as we know this week our Republican colleagues refuse to do theirs.

On Tuesday, this Committee met to vote on five outstanding nominees for the Federal Reserve. Republicans did not show up. Not a one. Instead, they went AWOL in the fight against inflation.

At this pivotal moment in our economic recovery, everyone understands that we need a full Federal Reserve board—it would be the first time in nearly a decade where all seven members sat, confirmed members sat at the Fed—to help tackle inflation. Republicans have no solutions. Only political stunts. Americans do not want more political theatrics. They want actions and solutions to bring down costs.

We will not stop fighting for these nominees. These nominees—I will just tell you what they have all done. They have met with every Senator, every single Senator who asked for a meeting, on Committee, off the Committee. They met with Committee staff, majority and minority. They offered to meet with many of my colleagues who refused to meet with them, and some of them then boycotted the vote. They answered every question posed to them at the hearing. They answered every question submitted for the record, more than 200 of them, in a timely matter. One nominee even answered questions submitted after the deadline.

If we are going to continue growing our economy, we need all seven Governors in place. We need these professionals, working
and debating and making decisions about monetary policy, and interest rates, and jobs, and tackling inflation.

I implore my Republican colleagues to show up and vote. Vote yes, vote no, just show up and vote. It is your job. I implore—and the American people expect—for you do your jobs, just like they do every day.

Let me read a few headlines from the past few weeks:

In my State, long derided as the “Rust Belt,” Ohioans have been waking up to headlines like these:

America is in the midst of unprecedented economic growth. Our GDP grew by 5.7 percent last year, the strongest annual growth in 40 years. For the first time in two decades—and this is, I think, particularly significant—our economy grew faster than the economy of China.

Job creation hit an all-time high. We added 6.4 million jobs last year, an average of more than half a million jobs every single month. We saw the fastest drop ever in the unemployment rate. American entrepreneurs started more than 5 million new businesses in 2021, another record.

Raw jobs numbers of course do not tell the whole story. They do not tell you how good the job is, what kind of wage it pays. On that front, though, the news is perhaps even better. Wages are rising, particularly for hourly workers who have been left behind in past economic recoveries. Workers are finally starting to share in more of the economic growth that they create.

American families’ disposable incomes were higher in 2021 than they were before the pandemic, even adjusting for inflation. As Assistant Secretary of Treasury Ben Harris said 2 weeks ago, “Household balance sheets were exceptionally healthy due in part to the American Rescue Plan, other Government pandemic assistance, and brisk wage growth.”

All of this progress was possible because of the American Rescue Plan. We promised shots in arms, money in pockets, and workers back on the job, and the Rescue Plan delivered.

We know that challenges remain. For all the progress we have made, we cannot deny that many of the people we serve say they do not feel it. People are exhausted. They are tired of this pandemic, they are tired of the anxiety, they are tired of the way that it has divided neighbors, divided schools, and divided families.

The number one thing we can do to improve our economy and improve people’s lives is to defeat this pandemic, and we are on the right course. Cases and hospitalizations are dropping. Because of the American Rescue Plan, a great majority of Americans are now vaccinated. Everyone can get a booster shot. We no longer have to live in fear.
We also know that the pandemic has caused inflation to run too high. Workers feel it every time they go the grocery store. Inflation is a real problem and one that we, as a country, need to address directly. It is all the more reason why we need a full Federal Reserve board.

The pandemic has revealed that our supply chains are too long and too fragile. It causes higher prices in some industries. No one wants to have to go to three different stores to get all their shopping done, or to have every option they try to buy on backorder for months. It is maddening, it is draining, it is frustrating for the American public.

We know how to fix it—you make more things in America. For too long, our trade policy and our tax policy have encouraged corporations to move production overseas. It has cost us millions of jobs, especially in the States of Pennsylvania and Ohio. It has contributed to our supply chain problems today. It is time to bring those supply chains back home.

The House and Senate have passed bills to spur domestic manufacturing, research, and development. They would allow us to better compete with countries like China. They would support the production of key inputs like semiconductors. We should put a comprehensive bill on the President’s desk soon.

We also took an important step to speed up our supply chains by passing the Bipartisan Infrastructure Bill to improve our roads, and our bridges, and ports, making it easier and more efficient for American manufacturers to get products to market.

As important as all of these steps are, Government is not the only actor here. Corporate consolidation is reducing competition, giving consumers fewer choices and workers fewer options. Nobody explains better in the meatpacking industry than my colleague from Montana, Senator Tester, what has happened there. Too often corporations increase prices while cutting an even larger check for executives and shareholders.

The Wall Street Journal tells us that two-thirds of the largest publicly traded companies have reported larger profits in 2021 than in 2019. In recent weeks, CEOs have bragged to Wall Street about their ability to increase prices on consumers.

Let us be clear. Raising prices is a choice, is a decision that corporations make. They could make a different choice. They could reduce the amount of stock buybacks. Millionaire executives could actually take a bit of a pay cut, or even just get a slightly smaller raise this year.

But there is nothing forcing them to make a better choice, because there is not enough competition in the economy. We need an economy that works for everyone, not just those at the very top. We cannot declare the recovery complete until all workers can find a job that pays them fair wages, that treats them with dignity, and that allows them to keep up with the cost of living.

Today we will hear from all three members of the President’s Council of Economic Advisers: Chair Rouse, Dr. Bernstein, and Dr. Boushey. These are skilled economists who understand that behind all the charts and models and tables are real people with hopes, dream, and ambitions.
As Chair Rouse said in January, the actions that the Biden administration has taken have led to, quote, “unprecedented improvement in our economy and important investments made in its future productive capacity.” I look forward to hearing more about this year of unprecedented growth, the current state of the economy, and plans to continue this expansion.

Ranking Member Toomey.

**OPENING STATEMENT OF SENATOR PATRICK J. TOOMEY**

Senator Toomey. Thank you, Mr. Chairman. I have to start by observing it is a little bit rich to be lectured by the Chairman about not attending a markup of nominees when the Chairman personally led the Democratic boycott of the Senate Finance Committee markup of two Trump nominees. There were several other Democrats on the Committee who participated in that boycott. I guess what is good for the goose is not good for the gander.

It is also rich to hear wailing and gnashing of teeth about vacancies on the Fed board and this newfound Democratic concern over inflation. First of all, I and my Republican colleagues have been on record well over a year warning about inflation risks, warning about the excessive spending. Democrats criticized us for wanting to normalize interest rates and Fed policy. And yet here our Democratic colleagues are pushing for yet another inflation-fueling spending blowout bill.

The fact is the Fed is fully functional. The FOMC has 9 of its 12 members in place. They could raise rates today if they wanted to. They could do it tomorrow. They could do it at any time.

But what is really ironic is that it is the Chairman’s decision not to move five nominees forward. We made it clear, and I made it clear last week to the Chairman repeatedly, publicly, and privately, we are perfectly happy to vote on five of the six nominees. That would be four Fed Governors and the director of the FHFA. If we did, actually most of them would get considerable Republican support. They would move on.

And if there were a concern about vacancies on the Fed, the Chairman could fix that very quickly. He chooses not to. He prefers to have the vacancies. That is his choice.

It is also interesting how some of my Democratic colleagues have been so passionate about ending the revolving door. I think you could argue some have practically made a career out of railing against the revolving door, where people go from a powerful Government regulator to go work for the industry that they regulated, they enrich themselves, and then maybe they come back to do it for another loop. Is there a more archetypical example than Ms. Raskin?

Senator Warren recently tweeted and called Randy Quarles “corrupt” because after he left the Fed he went back to the firm, the private equity firm that he had founded himself. So I guess it is corrupt if a Republican does that, but the rules do not seem to apply in the other direction.

The Chairman said that the candidates answered the questions. Let me be very clear. Ms. Raskin was far less than candid with us. She failed to disclose that she even was a director of Reserve Trust. She failed to disclose the $1.5 million she made for that service.
She failed to disclose hundreds of pages of writing and hours of speeches.

When she was asked how did she get on the board of Reserve Trust in the first place, she said she could not recall, which is odd because the founder and chairman says in an article in today’s Wall Street Journal that he has known the Raskins for decades.

When Ms. Raskin was asked if she ever contacted the Fed on behalf of Reserve Trust, first she evaded the question repeatedly, but then eventually she replied by saying she could not recall.

Well, that is funny, because the Kansas City Federal Reserve President recalled the conversation very well. The chairman of Reserve Trust recalled the conversation. He was not even part of it. But we are supposed to believe that Ms. Raskin just could not recall.

And let me remind everybody why this is important. Reserve Trust is a fintech company based in Colorado, and it applied for something that is extremely valuable: a master account at the Fed. To my knowledge, there is not a single fintech in America that has gotten that, and unsurprisingly, they were denied. Their application was turned down. Then, Ms. Raskin on the board, called the Fed, and shortly thereafter, the Fed does a 180-degree reversal and approves the master account.

To the best of my knowledge, as of today, there is a grand total of one fintech in America that has a master account with the Fed and it is Reserve Trust.

So we asked an obvious question. Why the reversal? Why the 180-degree change? What changed?

First we get stonewalled. Then we finally get a partial answer from the Federal Reserve Bank of Kansas City. Let me just quote one sentence that summarizes it. The Federal Reserve Bank of Kansas City says, “After its denial”—and that is a reference to the denial of the master account application—“after this denial, RTC changed its business model and the Colorado Division of Banking reinterpreted the State’s law in a manner that meant RTC met the definition of a depository institution.” That is from the Federal Reserve Bank of Kansas City.

My problem with that is on Tuesday night, the Colorado Division of Banking says that is not true. And this is what they said, and I quote, “We consider the statement that the division reinterpreted State law as a misrepresentation of our practice.”

So it remains entirely unclear what happened here. All we know is that Ms. Raskin was in the middle of it. The firm on whose board she sat applied for a very, very valuable account with the Fed. They were turned down. She intervenes, they get approved, and we cannot get an explanation of what happened here.

Is that fair to all the other fintechs across America that would also like to have master accounts, and they have been turned down? How is that fair to anybody? And how is this Committee doing its job if we do not insist on getting some answers to this question? But we get stonewalled. We get answers from the nominee that she cannot recall, and we get basically nothing from the Fed.

So, Mr. Chairman, it is your choice if you want to continue to preclude the possibility of having four nominees from the Fed con-
firmed and the FHFA Director. We are quite happy to process those nominees. But we want answers before we vote on Ms. Raskin.

Let me just close with a quote justifying a boycott of a recent markup of nominees. And I quote, “By refusing to demand honest, transparent information about the business dealings of these nominees the Committee failed to do its job on behalf of the American people.” That is Sherrod Brown, February 1, 2017.

Chairman BROWN. Thank you, Senator Toomey. I do not want this to be back-and-forth, because we have witnesses here for a real reason. But let me just say two quick things. One is our not showing up in the Finance Committee and the HELP Committee to discuss and actually ultimately vote on two, as it turned out, particularly one corrupt Cabinet nominee, Dr. Price, who was in office only about 4 or 5 months and resigned under a scandal, did not stop the Committee from voting. It was a protest that they had not answered nearly enough of our questions. They did not give the kind of response that Sarah Bloom Raskin, Governor Raskin and others gave, the fulsome kinds of answer they gave to dozens and dozens of questions. So we were protesting that, but did not block a vote because the majority could still go ahead. That is the difference in this. And the Banking Committee has never done that.

The second issue on voting on four noms—and I know that is Senator Toomey’s contention over and over—he knows, we all know that that would set a precedent, of the Ranking Member can decide, based on answers to questions that a nominee gave. I do not like the answers to climate change especially is one that has offended many, many Republican Members. Then if a Ranking Member can say, “I do not like the answers to the questions,” then simply withhold a quorum, it means the Ranking Members then choose whom we are going to vote on. So any Ranking Member, whether it is Finance or Banking or Veterans or any other committee, can simply say, “I did not like his answers. I did like her answers. We are not going to show up to vote,” then essentially the Ranking Member determines whom we are going to vote on.

So we are voting on all five of these Federal noms. We are voting on FHFA. They are very qualified. That is our intention when we get back in March.

To our witnesses—Dr. Rouse, Dr. Bernstein, Dr. Boushey—we welcome you to the Committee. I believe this will be our first hearing in a long time, as long as I can remember, with the full CEA before the Committee.

Chair Rouse, please begin your testimony. Thank you for joining us.

STATEMENT OF CECILIA ROUSE, CHAIR, COUNCIL OF ECONOMIC ADVISERS; ACCOMPANIED BY JARED BERNSTEIN, MEMBER, COUNCIL OF ECONOMIC ADVISORS; AND HEATHER BOUSHEY, MEMBER, COUNCIL OF ECONOMIC ADVISORS

Ms. ROUSE. Chairman Brown, Ranking Member Toomey, Members of the Committee, thank you for inviting me and my colleagues, Heather Boushey and Jared Bernstein, here to testify today.
Just over a year ago, President Biden entered office with a full agenda, a pledge not only to fight the pandemic and support economic recovery, but also to rebuild our economy for sustainable and more widely shared growth. Success was not pre-ordained. The country faced a still-raging pandemic, a weak economic recovery, and historic job loss.

Thanks to the collective efforts of the Administration, Congress, and the Federal Reserve, we have been able to recover with strength and speed. And importantly, we have begun to lay the groundwork for an economy that is stronger, more resilient, and more equitable.

Over the last year, millions of Americans have gained protection from the worst of COVID–19, businesses have been able to resume activity, and children are back at their school desks. Economic recovery has been strong. In 2021, GDP grew faster than it has in almost 40 years and the U.S. job market gained more than 6.7 million jobs. Unemployment is down to 4 percent, years earlier than projected. Child poverty is likely to be reduced by almost 40 percent in 2021.

The American Rescue Plan was a critical component of this recovery. It served as an insurance policy to address the uncertainty of a global pandemic, and support the economy as the virus, and the tools to tamp it down, evolved. The emergency measures worked, resulting in a robust economic turnaround. Families and businesses have had the means and resources to cope in the short-term. Ultimately, workers and small businesses have avoided the lasting damage we typically see when economic crises are allowed to linger.

But as President Biden has made abundantly clear, helping Americans weather the pandemic is simply part one of his economic vision. The Administration’s strategy encompasses what the President and Treasury Secretary Yellen have called “modern supply side economics,” that is, we must make investments in our economy to boost labor supply, raise productivity, reduce inequality, and create strong, sustainable growth.

The Bipartisan Infrastructure Law is a historic step toward realizing that vision, providing long-overdue investment in our Nation’s roads, bridges, water systems, and broadband infrastructure. We commend the bipartisan work of many on this Committee for making these necessary investments, and know your Governors, mayors, and constituents are grateful.

Unlike the American Rescue Plan, which was short-run relief designed to be spent out over the course of the pandemic emergency, the infrastructure law will be spent out across the country over years, building and strengthening the foundation our economy needs to increase its productive capacity.

Other administrative actions this year will also contribute to long-term economic growth. Examples include the whole-of-Government approach to increasing competition in markets, addressing climate change, and fostering greater equity.

Of course, challenges remain. The gains in our economy have taken place against the backdrop of a once-in-a-century pandemic economy, where what we know about downturns and recoveries has
been tested. Vigilance is required to ensure we do not backslide when curveballs like Omicron come our way.

And Americans are feeling the pinch of inflation—at the pump, in grocery stores, and in the marketplace. The pandemic itself has been a major driver. Consumers have shifted their spending from services to goods and global supply chains have been severely tested. A lack of workers has stymied the supply of goods and services as well.

In the near-term, the principal tools to curb inflation rest with the Federal Reserve, which is why it is critical to confirm the five highly qualified nominees now. The Administration also has some tools it can employ, as demonstrated in recent actions to improve supply chain disruptions at the ports and increase the capacity of the trucking industry.

In the longer term, we must make real investments, be that in our roads and bridges, or people and ideas. Sustainable growth will only come about if we are able to increase economic capacity and allow more Americans to participate productively in our economy. The economic challenges of 2022 must, of course, be met, but we must also lay a foundation for future generations.

In doing so, we must create an economy that rewards work, not wealth. The Administration’s economic agenda aims to ensure that those in the middle class, who have largely been left out of economic investments for the past 40 years, will finally benefit, ensuring that growth is more broadly shared.

We need Congress to act on the President’s full economic agenda to achieve these goals: providing necessary funding to continue to address the pandemic and keep the economy functioning; passing USICA to bolster competition and build resiliency into the market; enabling the energy transition to curb climate change; and making Build Back Better a reality so that families can afford the needs of everyday life, like prescription drugs and childcare. As noted by 17 Nobel Prize winning economists, these long-term investments not only build a stronger economy but also ease longer-term inflationary pressures.

President Biden’s economic vision is predicated on the fact that the economic status quo has not worked for all Americans. For decades, it largely benefited those at the very top. We share his vision for a stronger and more equitable economic future for our country.

Thank you.

Chairman BROWN. Thank you, Madam Chair. I have two questions for you and I hope to get, if answers are short enough, to Dr. Boushey and then Dr. Bernstein.

Chair Rouse, many American workers and families are concerned about high prices at the grocery store and the gas station. What is your assessment of inflation right now? What is the best way to fight it?

Ms. ROUSE. Well thank you very much, Mr. Chairman. So we understand that inflation is affecting consumers’ pocketbooks with higher prices, at the pump, grocery stores, from various goods. Our view is we expect inflation to moderate over the coming year, because we believe that the factors that have been causing high inflation will begin to ease as COVID cases gradually decrease.
You know, inflation is fundamentally a mismatch between supply and demand, which has partially reflected a change in demands as consumers have shifted their spending to goods. So what we need to do is we have to accommodate demand. We know that we have to have increased supply. Producers have been increasing their prices because of the constrained supply. So we need to ensure that the ports are strong, that we have robust investment in our infrastructure.

I will say in the short term this really is in the purview of the Federal Reserve, which is why confirming the nominees is so very important. The Administration is doing what it can to increase supply chains, to get more workers back to work, including truckers with apprenticeship programs, and other efforts. In the medium term, the competition agenda is so very important because we know concentration, in concentrated markets that gives some price pressure for firms. It reduces innovation. It can cause lower wages for workers.

Importantly, the President’s economic vision of investing in infrastructure and people and ideas is really the long-term solution, building economic capacity for addressing longer-term price pressures.

Chairman BROWN. Thank you. My friend and colleague, Rob Portman, called the Bipartisan Infrastructure Bill a deflationary bill, that it will help drive down prices for Americans consumers. Do you agree with that?

Ms. ROUSE. What I agree is that the Bipartisan Infrastructure Law makes critical investments in our roads, ports, bridges, broadband, takes lead out of pipes. Those are important investments which increase our economic capacity. By increasing capacity we can accommodate more demand, and so therefore it helps to ease inflationary pressures.

Chairman BROWN. Thank you. Dr. Boushey, your work as an economist is focused on how we fix problems with inequality in the economy, whether by race, class, or gender, or even where you live. The stock market always seems to bounce back first from a downturn while the lowest-paid workers who experience the biggest job losses are also the slowest to reap the benefits of the economic growth that they essentially created.

How do we ensure that economic recovery reaches all workers, from steel workers in rural Ohio to newly unionizing baristas at Starbucks, and not just those at the top?

Ms. Boushey. Thank you, Chairman. That is a great question and a good place to start. You know, the President has been very clear on this issue. In fact, in his address to Congress last year he said that his economic agenda focuses on building an economy from the bottom up and middle out, and really making sure that we see strong, stable, and shared economic growth. And that is why it was so important when he first came into office to focus on getting our economy—addressing the pandemic and getting us back to full employment.

That is why the American Rescue Plan was so important. There are charts behind us that show some of the successes, getting 6.7 million workers into jobs, and importantly, many of the gains, particularly in wages, have been felt by workers at the bottom end of
10

the wage spectrum. So when you get folks back to work it has this pulling-up effect.

Now, of course, that has not solved all of the issues around inequities, and I want to point out a couple of other things that we have focused on early on. One thing that the Administration focused on was making sure that the PPP program, the Payroll Protection Program, actually went to those who needed it the most, and there is now research showing that actually once the Administration came into office more business owners of color and women were able to access that program. So that is one way.

And what shows is that you actually need to have a focused attention, which is why President Biden, as Chair Rouse said, these whole-of-Government approaches to equity, to addressing climate change, and to issues around market structure and competition, because it is only through making sure that all of our policies are focused on both being inclusive and making sure that those at the top are not able to be unduly rewarded will we be able to have that kind of strong, stable, shared growth.

I want to just end with a couple of notes, to echo what Chair Rouse said. Certainly the Bipartisan Infrastructure Law is an important downpayment on equity, in a variety of ways, but I cannot stress enough how important Build Back Better is, that more fulsome agenda, to make sure that we are addressing the needs around care and climate across the U.S. economy.

Chairman Brown. Thank you, Dr. Boushey. Dr. Bernstein, quickly—and sorry, I do not have a lot of time left—the pandemic revealed longstanding weaknesses in our supply chain, as you know. What should Congress and the Administration do to make supply chains more resilient and bring prices down for consumers?

Mr. Bernstein. Thank you for the question. As was mentioned, the Administration is already engaged and working with the ports and working with the trucking sector doing all we can to help ameliorate some of these pressures that are showing up in our elevated inflationary reads. The Ports of L.A. and Long Beach process 40 percent of the Nation’s containerized imports. They actually broke their 2018 record last year for annualized imports by 13 percent. The number of containers sitting on the docks for 9 days has come down by 60 percent, and so on. In the interest of time perhaps we will be able to get back to this.

But underscoring what both of my colleagues said, by investing in the Nation’s infrastructure, whether it is roads, bridges, electric vehicles, climate we help to strengthen supply chains by onshoring some critical capacity that is now very much dependent on offshore arrangements. We also help to bolster not just supply chains but build in the kind of resiliency that has clearly been missing. Certainly microchips are a great example of that, and USICA is very important policy solution in that regard.

Chairman Brown. Thank you. Senator Toomey.

Senator Toomey. Thank you, Mr. Chairman. In 2019, wages were rising, and they were rising faster than prices. And wages were rising faster for low-income workers than they were for upper-income workers. So we had workers—unemployment reached record lows also—and workers were able to improve their standard
of living because their income was rising faster than their expenses.

Now we are in a situation where wages are rising but prices are rising faster, and the reality is for most workers they are falling behind because the cost of the things they need to buy every week is going up faster than any increase in their income.

So the Bureau of Labor Statistics, on February 10th, summarized it pretty neatly. They say, and I quote, “Real average hourly earnings decreased 1.7 percent, seasonally adjusted, from January ’21 to January ’22. The change in real average hourly earnings, combined with a decrease of 1.4 percent in the average work week, resulted in a 3.1 percent decrease in real average weekly earnings over this period.”

I know that is not the intention, but is it not true—and I will start with Dr. Rouse—that most low- and middle-income workers have experienced a bigger rise in the cost of the things they need to buy than in their incomes?

Ms. Rouse. Well, I appreciate the concern very much, Senator, and we are all very concerned about inflation and appreciate that that is, you know, the purview of the Fed in the short term, and it is important that we have a full slate of Governors.

I just would like to point out the chart on the far right.

Senator Toomey. OK, yeah, I am sorry, but look. We all know that the number of Governors is adequate to do whatever they need to do about inflation, so let us not go there.

Ms. Rouse. OK. So let us look at this chart on the far right.

Senator Toomey. But can you confirm the simple fact that for most workers’ wages are not rising as fast as prices?

Ms. Rouse. So some recent estimates by economists Emmanuel Saez and Zucman suggest that actually, if we look at the bottom 50 percent of workers, that their market income, before taxes and benefits, is greater now than it was in Q4 2019, and if you look after taxes and benefits that they are actually ahead.

Senator Toomey. So we saw the number of 7.5 percent as the most recent annual rate of inflation. We also know that low- and middle-income people have a worse experience than that because they pay a disproportionate amount of their income for things that are rising more rapidly than 7.5 percent, like gasoline, like groceries.

Are you telling me that you think that the average worker in America is more than keeping up with inflation?

Ms. Rouse. So what we know is that—look, inflation is not—we do not want to see this level of inflation going forward, and that is why the President is focused on doing what he can. The Federal Reserve is likely to adjust how its posture has been toward inflation. But we do know that household balance sheets, because of the efforts of the Federal Government, the Federal Reserve have been maintained through this pandemic, which is what is reflected in this chart on the left.

Senator Toomey. OK. I am surprised that we cannot candidly acknowledge the obvious. Wages are not growing as fast as prices for the large majority of workers. These workers are falling behind. Yes, if you have a lot of accumulated assets, they have appreciated in value, and you are probably doing fine. But the Americans I am
concerned about in this case are those who do not have huge accumulated assets.

Let me ask a question of Dr. Boushey. Contrary to what I occasionally hear, it is an objective fact that the 2017 tax reform made the American income tax code more progressive. We lowered the burden for everybody and in the process changing rules shifted the percentage, the largest percentage, to more upper-income people.

My understanding is the Administration supports legislation that would raise the SALT deduction from the $10,000 limit that we put for rich people to deduct their high State and local taxes to $80,000. I do not know any working-class people who have $80,000 worth of State and local taxes, and yet it looks like the Administration supports that.

My understanding, from joint tax, that the top 10 percent of income earners would get about 88 percent of the benefit of lifting the SALT cap. So why does the Administration want to have this huge giveaway to wealthy people who choose to live in expensive jurisdictions?

Ms. Boushey. So the Administration has not come out with a position on the SALT tax at this point, and I am not here to negotiate that with you today.

Senator Toomey. I am sorry. Maybe I——

Ms. Boushey. But what I can tell you——

Senator Toomey. Did you not endorse the Build Back Better legislation? The House-passed bill includes——

Ms. Boushey. So the President’s framework has been very clear on his priorities in terms of tax reform——

Senator Toomey. OK, I understand, so——

Ms. Boushey. ——and he has a very robust agenda.

Senator Toomey. I just want to be clear. You do not support the House-passed bill.

Ms. Boushey. I just said that I am not here to negotiate that particular piece of the legislation here today, but the President has put out——

Senator Toomey. That does not sound like much of an endorsement, OK.

Ms. Boushey. ——a very fulsome agenda around tax reform, focusing on taxing wealth and not work, and focused on taxing folks making more than $400,000 a year.

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

Chairman Brown. Senator Tester is recognized.

Senator Tester. Beautiful thing. I like that. Thank you very, very much. Just a couple of things, and I do not want to get into an extended debate on this. I do want to get to the economy and I want to thank you all for being here.

But, you know, when Reserve Trust got their master account they were not classified as a fintech. It was 3 years later they did that. And then there is an outfit by the name of Jack Henry that did the same thing.

But what is more important here is to know that when a Secretary, a very important Secretary, came to my office during the Trump administration and I asked him about disclosure and conflicts of interest, he looked at me and said, “That is none of you guys’ business.” A very important Secretary. And he did not answer
any of the question because he did not think I needed to know any of the questions when I had him in my office. I could have tried to organize so we did not have a vote on him, but the truth is I just voted no and that was that. That is the first question.

The second thing is that, Senator Toomey, I know you have great skills, and so do folks across the aisle, to be able to come in here and try to persuade minds. And I know it is difficult because it is difficult from our side to change you guys’ minds too. But part of showing up is having that debate, and part of showing up is having that debate before we have the vote, and God only knows what could have happened and did not happen because nobody showed up.

The last thing I would say is that I think you are giving Sarah Bloom Raskin way, way, way too much credit. I serve with a lot of folks here, and I am sure when I get out of this position they will continue to say, “Jon, would you consider this or consider that,” in whatever position I am in, whether it is being a farmer in Montana or a meatcutter or whatever. And I would do the same thing that I think anybody on this Committee would do, and that is, “I will take a look at it. I will give you a fair shake, but I ain’t just going to do what you tell me to do.”

And you guys are making the assumption that Sarah Bloom Raskin made a request and they just rolled. I am going to tell you, if that is the case, we have got the wrong people on these regional Feds. We ought to take a look at replacing all of those. Because if that is the process that is used for giving a master account, then we have got bigger problems than Sarah Bloom Raskin.

That is all, and I do not want to talk about any of that anymore. We just to try to make the Senate functional, and not showing up does not add to the functionality of the U.S. Senate, which I think we can all agree is pretty damned dysfunctional at this moment in time.

I want to talk about childcare, because it is something I hear about almost all the time when I go back to Montana. And I want to talk about housing, which is what I almost always talk about when I go back to Montana. And the question I am going to ask you is pretty simple, really, when it comes to childcare, and I do not care who answers is. I think we have got a huge problem, and I think folks have figured it out. Because of the pandemic, when they were staying at home, they looked at their bottom line and said, “Hey, I have got more money not paying childcare and not working than busting my hump working and paying for childcare.”

So the question becomes, if we are going to have affordable childcare—and accessible childcare, because that is important, I think, absolutely important in rural America but probably important in urban America too—if we are going to have affordable childcare, how do we do that? How do we do that, or do we just assume the private sector will take care of the problem? And if we do, how long will that take? Because my grandkids are actually in high school now, and when they were in childcare it was over $10,000 a head for them to be in childcare 10 years ago.

So does anybody want to respond to how we make childcare more affordable and more accessible, and what role the Government should play in that?
Ms. Boushey. I am happy to take that question, Senator, and this is such an important issue and that is why addressing childcare was both an important part of the American Rescue Plan and also an important part of Build Back Better.

So, I mean, here is the thing. You know, childcare businesses are out there every day, trying to provide a service to American families. It is a service that is incredibly expensive to provide, especially to get the kind of quality childcare workers that families need, and families cannot afford those costs. And so the crux of what the President proposed in Build Back Better was to make it affordable for families to be able to pay for childcare by capping the amount of income that families have to pay while, at the same time, subsidizing those businesses so that they could provide high-quality care, with qualified care providers, to families all across the United States.

And, you know, we are already seeing just how challenged that industry is right now. The number of workers in childcare has fallen over the course of the pandemic as childcare centers have really struggled to make ends meet. We have seen now that the money from the American Rescue Plan is going out to those providers, out to over 150,000 providers nationwide, to help them cover their costs during the pandemic.

But all of this, it is about kids’ well-being, and we know that quality childcare is important for our future economy but it also about making sure that parents can get to work. You know, we have questions about making sure that labor supply gets back to where it was prepandemic, and a lot of that is about addressing this childcare crisis in America.

Senator Tester. Thank you. I am out of time. I would love to get to housing and I would love to get to some job training issues, but I will turn it back to the Chairman and Ranking Member. Thanks, you guys.

Chairman Brown. Thank you, Senator Tester.

Senator Rounds is recognized, from South Dakota, from his office.

Senator Rounds. Thank you, Mr. Chairman. Let me just begin by saying I appreciate the opportunity to participate this way, and I would like to focus on inflation and the causes of it, and I would like our witnesses to talk a little bit about the differences between what may very well be demand side challenges versus supply side.

My constituents in South Dakota, like Americans across the country are being squeezed by higher prices across the board. Consumer prices in January were up 7.5 percent from a year ago. Energy prices overall were 27 percent higher in January than they were 1 year earlier. Electricity prices have jumped 10.7 percent. National gas prices have soared 40 percent since January of 2021, reaching the highest level since August of 2014.

Right now the CPI indications are at about 7.5 percent nationally, and PPI basically 9.7 percent, which would suggest that there is going to be additional, or at least there is more inflation in our future rather than less.

My question, Dr. Rouse, is what portion of this, in your analysis, how much of this is due to demand side, where the Fed would basically have a role versus the supply side, which, as you indicated
in your testimony earlier, this perhaps, you know, the President having some things to do and the Fed having some things to do. First of all, would you agree that the supply side basically would rest more on the Presidential side and the demand side more on the Federal Reserve side?

Ms. ROUSE. Well, thank you for the question. So the way that I see it is that we have inflation because it was important for the Federal Government to support households, workers, businesses through the pandemic. That is to maintain demand. We see this in countries around the world that could afford to do so, that they protected their constituents through the pandemic. Supply was not able to accommodate that demand and inflation fundamentally comes when you have a mismatch between supply and demand.

So there have been various estimates that have been put out, where we say the confidence interval is very wide, but we know that as we get through the pandemic we will see regulation in both of them.

And so what I would say is that as we are expecting that, as we work through this pandemic, that the price pressures will ease. You know, outside forecasters are expecting inflation to be about half by this time next year.

Senator ROUNDS. Dr. Rouse, if I could I really did not mean it to—it is not intended as a gotcha question. I am just curious. When we talk about inflation we know that it is both sides, and look, we recognize that we did what we could during the pandemic to be able to make sure that our economy could recover as quickly as possible.

My question is just right now with inflation where it is at how do we go about addressing it? If we are serious about addressing it, how do we do that if we cannot determine how much the Federal Reserve should do versus how much the Administration should do? That is my question. If you do not have that information or if that is not part of the studies, why not?

Ms. ROUSE. So the Federal Reserve is an independent agency, and they are studying and they will determine the speed and the size of their response.

I will note that on a fiscal side that the fiscal impulse has already turned rather negative, so we are already not putting as much fiscal resources into the economy, which will actually be slowing down the economy relative to where it has been over the last 2 years. And we expect that as people come back into the workforce, as the pandemic is under control, that will ease some constraints. Getting people back to work will help on the supply side. And as the pandemic is addressed around the world, in particular, that will help bring more goods as well. So there is a role to play for the Federal Reserve in terms of fiscal policy in helping us to normalize through this pandemic.

Mr. BERNSTEIN. Senator, let me just say a couple of words if I might, if that is OK.

Senator ROUNDS. Thank you very much. I appreciate it. My only concern on this is I really think it is difficult to bring this under control if we do not recognize how much of this is actually due to supply side issues versus demand side. I think part of that is the cost of petroleum, which is going to impact everybody, and I think
when we are not talking about what is happening right now, when we talk about shutting down oil and gas leases on Federal land and so forth, that sends a message to futures, cost on crude and so forth. That may very well work well for Mr. Putin because right now he is getting record profits out of the oil and gas that he is producing, while at the same time, back here at home, what we are seeing is increasing prices for our consumers.

I just think that needs to be taken into account, and may not be a popular thing to talk about right now with the Administration. I think the American people should understand that a lot of the inflationary trends that we are seeing are due to the inflationary pushes on the supply side, which is restricting the ability of us to have prices right now down to where they were a year or a year and a half ago.

So I am kind of surprised at the split between the supply side and the demand side has not been a little bit more of the discussion that we should be having if we really want to get it under control.

Mr. Chairman, my time has expired.

Chairman BROWN. Dr. Bernstein, please answer briefly.

Mr. BERNSTEIN. I will try to be brief because I actually like the way you teed the question up and I think that our view reflects much of the way you framed this, in the sense that both demand and supply are clearly playing a role. The Federal Reserve, of course, works more through the demand channel, and as you suggested, our work is and can help further on the supply channel.

The answer to the question of how much should each do, each should do everything it can until inflationary pressures normalize. What that means on the side of the Government, and Congress definitely has a very important role to help here, is to focus on the near-, medium-, and longer-term supply chain constraints. In the near term, as I have mentioned, we have intervened extensively in the ports, through trucking. Our competition agenda is, as Chair Rouse suggested, intended to help ease consumer prices in those sectors.

And then over the medium term, we very much believe that investing in domestic semiconductor capacity is so important, particularly regarding cars, a real source of auto pressure. We talked a little bit about housing. That has the largest weight in the consumer price index.

And over the longer term, the infrastructure bill and the measures in Build Back Better are designed both to increase the economy's supply side, productive capacity, and help reduce costs that consumers face.

So I think your framework is actually the correct one, and I think between the work of the Federal Reserve and Government trying to expand productive capacity and supply side, we can ease those pressures, perhaps as the forecast suggests, by the end of this year.

Chairman BROWN. Thank you.

Senator Menendez is recognized, from New Jersey.

Senator MENENDEZ. Thank you, Mr. Chairman. You know, I did not come here to talk about SALT, but since the Ranking Member raised it let me just say, if I was Pennsylvania I would like the way
things are. Pennsylvania gets $15 billion more from the Federal Treasury than it contributes to the Federal Treasury, so if we could do that. I would be happy to make a deal with all of my colleagues that have a problem with SALT, that we will just get back whatever we send, and New Jersey would be very happy.

Because there are maker States like New Jersey that invest in education and research and development and infrastructure that helps to drive the economy and sends billions to the Federal Treasury more than it gets in return. So it is a maker State. And then there those States that I call moocher States that get a lot more than it sends to the Federal Treasury.

So if you want to continue to have States that are maker States, that are blue-chip States, that make money for the Federal Treasury, then just continue to ax the State and local property tax deduction, which is the longest-serving part of the Federal code in terms of a deduction, and you will see those States be less of maker States, so that you can continue to mooch off of it.

But let me move to the more current issue of the time. There is no doubt that American families are feeling the pain of inflation as supply shortages have wreaked havoc on the world economy. However, that pain has been magnified by companies that are hiding behind the headline inflation figures to justify raising prices and profits on the backs of hard-working Americans. And let us be clear. Corporations are not the ones hurting right now.

Here is a transcript of Kimberly Clark’s last earnings call a few weeks ago. CEO Mike Hsu stated that the company took, quote, “decisive action to offset the impact of higher costs with significant pricing actions.” He was not kidding. The price of a 50-pack of Kimberly Clark N95 masks more than doubled, from $23.19 to $57.15, from last October to January. And the company’s plan for the future is not to deliver relief to consumers but to resume stock buybacks, quote, “as soon as we get the excess cash-flow.”

It is amazing to seek profit beyond simply hiding behind the issue of inflation.

Dr. Bernstein, are you seeing this occur in other sectors of the economy as well?

Mr. Bernstein. Yeah. Profit rates and profit margins are highly elevated for firms across many sectors of the economy. That is a short answer to your question. I guess putting it in the context of our discussion—and by the way, I did want to correct something that Senator Toomey said. Actually, while you are correct about the year-over-years numbers, last month real wages actually beat inflation.

But I wanted to talk about this in the context of wage growth and inflation. It is commonly argued that wage growth is a source of inflation, and that is potentially true based on a full set of other factors that contribute to inflation, including productivity growth and the share of national income that is going to labor or to profits. And it is completely coherent within the algebra of how wages and inflation interact that non-inflationary wage growth can be paid for out of reduced profit margins, and I think that is relevant to—

Senator Menendez. Well, I just cited one quarterly profit call. There are many others in which clearly the companies are using the guise of inflation to ratchet up their earnings, and that is un-
conscionable and we have to think about ways in which that transparency can take place so that consumers know. It is pretty astounding.

Let me ask one other question. Even as we talk about a growing economy, we have a labor shortage across the economy, which is contributing also, in my mind, to rising inflation and unmet consumer demand. There are currently nearly 11 million job openings nationwide across low-wage and high-skilled industries. Immigrants are ready and willing to fill those jobs. We had the Secretary of Energy in New Jersey the other day at one of our research and development centers. Four of the six people who made presentations were clearly immigrants to the United States, leading the way in innovation.

Unfortunately, there are over 1.6 million immigrants that still have pending work permit applications before USCIS and over 8 million immigrants that are stuck in the broader visa backlog. Leading business groups, including the American Business Immigration Coalition, agree that robust immigration legalization provisions are urgently needed to address our significant labor shortage.

What would each of you say is the role of immigrant workers in mitigating the current labor shortage and rising inflation?

Ms. Rouse. Well, thank you, Senator Menendez, from the great State of New Jersey. So we completely agree, and the President, from day one of his Administration, he sent a bill to Congress to modernize the immigration system. He has also issued an Executive order directing a top-down review of barriers to access in our legal immigration system, as you know, on which U.S.-based employers rely to fill these critical labor needs.

So in response to that order, agencies have worked to create efficiencies in the work permit process, expediting work permit approvals for health professionals, extended the period for which such permits are valid, and are actively considering other administrative actions to expand the labor supply.

So immigration is part of the solution here. I will add that part of our labor supply challenge was going to happen just due to the natural demographics of our society. This pandemic hit at the height of our—pretty much at the height of the baby boom, as they were retiring, and we have seen some excess retirements.

I will add that a key part of getting people back to work will be addressing the pandemic and ensuring we have the tools so that people can get back to work safely and not risk their health.

But there is no question that facilitating and dealing with the backlog of these visas is top of mind. The President’s team is working on it, and that is part of the solution as well.

Chairman Brown. Thank you, Senator Menendez.

Senator Daines, from Montana, is recognized from his office.

Senator Daines. Chairman Brown, thank you. I just want to start off by echoing Ranking Member Toomey’s comments earlier about the markup that was supposed to occur this week. It is truly a shame, in my opinion, that we did not move forward and get five of the six nominees approved. I wrote a letter in August supporting Chairman Powell’s renomination, and I know given past concerns from my colleagues on the other side of the aisle about the use of
the revolving door, frankly I am a bit surprised that they would not share a desire to fully vet this nominee before moving forward.

Turning to my statement, 2021 was the year of rampant inflation, growing from 1.4 percent at the start of President Biden’s term now to over 7.5 percent. Inflation grew faster, and has continued to grow faster than wages for the vast majority of workers, meaning that paychecks are effectively shrinking every month as this continues.

On an annualized basis, real average hourly earnings dropped 1.7 percent. And, of course, other parts of the economy are feeling the pain. Homebuilder confidence. I grew up the son of a homebuilder. Their confidence fell for the second straight month, in large part due to spiking lumber and steel prices as well as months-long waits for cabinets, garage doors, countertops, and just about everything else you would find in a standard home.

Energy prices are rising, gas is up 40 percent year over year, fuel oil is up 46 percent year over year, and up 9.5 percent in just the last month. And I just found it frankly startling we are seeing significant increases of Russian diesel being imported now at a time when we are watching the Russians invade Ukraine.

This, of course, not going unnoticed by Montanans and Americans across the country. Consumer sentiment is lower now than it was at the beginning of the pandemic. In fact, according to a recent Gallup poll, 71 percent of individuals living in households with incomes of $40,000 or less say that price hikes have caused their family financial hardship—71 percent.

Of course, we were all told, all throughout 2021, by President Biden’s administration this inflation was transitory. I have not heard the word “transitory” lately, and many of us on this side of the aisle were questioning this belief this would be transitory. We did not buy it, and sadly, our predictions now have come true.

They are continuing to insist that a peak is just around the corner. Well even if it is, I have not seen anything that suggests that 7.5 percent is far too high. We just do not need inflation to peak soon. We need it to plummet.

Now to a few questions. Looking back at the economy in February of 2020, we saw what I would describe as a “Goldilocks economy.” We had wage growth across the board. Inflation was in check. Wages were actually growing the fastest for individuals at the bottom of the wage spectrum. To me, this broad-based, non-inflationary growth was about as good as it gets.

My question for the panel is this. Would you agree that the pre-pandemic economy, from February of 2020, is better than the economic picture as we sit here today? A simple yes or no will suffice.

Ms. ROUSE. I will agree that the pre-pandemic economy on net was looking fairly strong. However, that pre-pandemic economy reflected many years of rather anemic growth. It was reflecting, even in terms of wage growth at the median, we had seen a little bit but there had been decades where at the median there had not been robust wage growth. We know that there were gaps by race and ethnicity that had been longstanding.

So I would argue that while, in February of 2020, the bones of the economy were strong that there were weaknesses there that this President felt we should address, which is why his economic
agenda is designed to increase the economic capacity in order to generate more robust, sustainable growth that can be more equitably shared.

Mr. BERNSTEIN. I will weigh in on your question as well. The labor market is actually tighter now than it was then, by some metrics. The unemployment rate was lower then than it is now, although not by much—3.5 versus 4 percent. There are far more job openings now than there were then. The GDP, probably the most commonly cited indicator of economic health and growth, is considerably faster now than it was then, which is consistent——

Senator DAINES. Dr. Bernstein, are you suggesting we are better off right now than we were in February of 2020?

Mr. BERNSTEIN. It is not a simple yes-no question, is what I am more than suggesting. It is what I am articulating here.

There is a set of economic indicators—job openings, GDP growth. Child poverty—child poverty was actually lower when you factor in the interventions in the rescue plan in 2021, probably than it was in 2020. We only have estimates of that so far. And that is very much a function of the President's Rescue Plan. By pulling the recovery forward, by getting shots in arms and checks in pockets——

Senator DAINES. Dr. Bernstein, I just firmly disagree with that. We had $1 trillion of unspent COVID dollars at the end of 2020, and then, on a purely partisan basis, our colleagues pushed another $2 trillion of Federal spending into the economy in Q1——

Mr. BERNSTEIN. Senator——

Senator DAINES. ——and we were warned this was going to have an inflationary effect. So anyway, I just respectfully disagree.

Mr. BERNSTEIN. OK. Well, I understand your point but let me just——

Senator DAINES. The balance sheet now——

Chairman BROWN. Senator Daines—Dr. Bernstein, hold on.

Senator DAINES. I am out of time.

Mr. BERNSTEIN. I want to answer the question that you——

Chairman BROWN. Dr. Bernstein, wait a minute. Senator Daines, is that your last question?

Senator DAINES. Well, I think I am out of time, Chairman Brown. I want to respect the Committee.

Chairman BROWN. Dr. Bernstein, a very short answer.

Senator DAINES. I just respectfully disagree.

Mr. BERNSTEIN. I am trying to answer the question that you posed, Senator, and ticking off a set of indicators that are actually doing better now than they were then, in the context of a once-in-a-hundred year pandemic, which I think is a remarkable achievement for our Administration and those in Congress who helped us.

Senator DAINES. Well, keep in mind the Federal balance sheet right now is trillions of dollars higher than it was before. Anyway, thank you.

Chairman BROWN. Senator Warner, from Virginia, is recognized from his office.

Senator WARNER. Thank you, Mr. Chairman, and I appreciate this Committee's nontransitory—transitory but relentless focus on this issue. And I would point out to my colleague, I spent a lot of time working with the former President's Treasury Secretary, Senator Mnuchin, where we put about $5 trillion, under President
Trump, into COVID relief. We are talking about what is potentially driving inflation. And I think those investments, I was proud to work with him on those investments, and I think they frankly saved this country from not only a recession but potentially a depression.

I want to come to a topic that I think a couple of Members have mentioned but I do not think have drilled down on, and that is our housing shortage. We have seen rents go up 13.5 percent nationwide over the last year. In some markets it has gone up 20 percent. We have seen home prices double over the last decade.

A lot of this is frankly due to housing shortages. We now have a housing shortage of about 1.7 million units, and that grows by about 150,000 units each year. And everything I have heard, at least, is that shortage is particularly acute not at the upper ends, not even on the rental side at the highest-end rental. It really is the most acute at low-income housing.

And that is one of the reasons why I am working with the Chairman and many of us on the Committee. We had a robust housing package in the second part of the President’s initiative that would have gone toward this supply issue. Because if you are looking at housing costs driving upwards of a third of CPI, and housing is a huge component of low- and moderate-income folks’ basic nut they have got to meet each month, you know, if we really want to take on systemically and not on a transitory basis but on a relentless basis the question of inflation, we have got to increase housing supply.

So Dr. Bernstein—and I would be happy to hear from other members of the panel as well—what should we be doing on housing supply? And I was going to ask two questions. I will try to ask just one, recognizing I would like to hear from the whole panel. Housing supply, won’t that address inflation? It will not happen overnight but this is a long-term problem that has been developing over a decade.

And beyond just direct Government programs there are tax initiatives, like LIHEAP and others, LIHTC and others, that I think make some sense. You know, private sector, then bipartisan support of LIHTC gives that kind of incentive for low housing construction to developers. Should we not use these in our toolbox if we are really going to take on, not in a short-term but in a long-term basis inflation?

Mr. Bernstein. Yes. That is an extremely important set of questions, and let me begin by thanking you for your leadership on this work as well as others on the Committee.

Let me start by just saying why this is so important, underscoring some of the points that you made, Senator. There is a long-term supply shortfall in the housing sector, and you mentioned 150,000 units each year deficient supply. Multiply that by 10 and you get to the number that you are suggesting in terms of a shortfall. This is a market failure that is particularly acute in the bottom half of the market. And why? It is because the math does not always add up for people to build, for builders to build, along with the problem of exclusionary zoning problems. This makes this key to the President’s equity agenda, especially in rural areas and communities of color.
And the third issue you correctly raised was inflation. Shelter is the largest single component in the CPI. Housing experts Jim Parrott and Jim Zandi recently wrote, quote, “If policymakers are serious about reining in inflation then they have little choice but to take on the shortfall in housing supply.”

What can we do? The Administration is already actively using its executive powers to increase housing supply and access. We have coordinated with various agencies—Fannie, Freddie, HUD, Treasury—to create, deliver, or preserve 100,000 affordable units over the next 3 years.

But the Administration toolbox, Senator, as you well know, is not nearly big enough to deal with the supply shortage that goes back a decade, at least. Investments that we make now will pay off for many years to come. Ideas that we have put on the table, many of which you have helped champion, have a long history of bipartisan support. And they involve the tax credits that help to incentivize building on the supply side, where too often middle- and low-income housing does not pencil out, given land, permitting materials, and cost, again which predated the pandemic; resources to help build and renovate houses; and resources to build housing infrastructure through Community Development Block Grants, which includes action on exclusionary zoning.

I can say more about any of those details. It would probably a whole other hearing to go through them in the way they deserve, but let me stop there for now.

Senator WARNER. And I think we have run out of time so I would welcome any of my Republican colleagues who want to work with me on bipartisan tax policy that actually incents the increase of supply. If we do not want to take a transitory approach and we want to take a long-term approach to deal with inflation we have got to increase the supply of housing, particularly for low- and moderate-income people.

Thank you, Mr. Chairman.

Chairman BROWN. Thank you, Senator Warner.

Senator Scott, from South Carolina, is recognized.

Senator SCOTT. Thank you, Mr. Chairman, and thank you all for showing up this morning. It has been a fairly feisty hearing it sounds like to me, watching this back in the office and paying attention to the comments.

I will say, there must be millions of kitchen table economists, also known as parents, all over the country, asking what in the world is the value of an economist degree in Washington, DC? Because if we are failing to answer the simple question that Senator Daines asked, which is are we better off today than we were a year ago, the answer is emphatically “no.” That is not a question that people at the kitchen table are asking in a serious manner.

When you ask yourself if the average person in this country whether inflation was better this month than wages, the cumulative effect of inflation in an average household in the country, when your gas prices are up 40 percent and your utilities are up 20 percent, the answer is “no.” If you had a 4 percent increase in your wages and a 7 percent increase in inflation, the bottom line is that your spending power is down, not up. If, in fact, you can
look at inflation as an additional tax on those folks with fixed incomes, are they better off, the answer is “no.”

This is not a hard question to even dig into. This is a simple question that is clear. When your food is higher, and your clothing is higher, and your utilities are higher, and your gas is higher, to suggest that we are anything other than worse off this year than we were last year, you do not even have to believe me, as me. Ask the President’s approval ratings, the lowest ever. Why? It is because the average American family is suffering through an incredible crisis that they do not have to hear what you are saying. They can see with their own eyes the disappearing dollars in their accounts. This is not hard to see. This is easy to see.

What we should be asking ourselves is how do we make it better, not pretending as if it is not bad. It is really bad, and getting worse. When you are at a 40-year high in inflation, this is not something that the average person says, “I don’t really understand what inflation is anymore.” They do not even ask the question, “What is the definition of transitory” because this is not transitory.

So the question I would pose, if I had a question, that is for all three of you is, how do we tell the American people that the inflationary impact is not devastating to someone like the woman who raised me, a single mother, who is looking at her account go down and her challenges go up? How do we say to that person that there is somehow, some way, good news in the current economy? And frankly, the confusion that is going to be caused at tax time, when we accelerated the tax refunds through the $300 monthly payment, that leads to confusion and a delay in refunds, because we thought there was a better way to deal with the Child Tax Credit. I think that is going to add more confusion to this economy, less confidence in this economy going forward.

So I hear what you are saying, and I think the average American is literally sitting there asking themselves, this cannot be the Banking Committee in the U.S. Senate, unable to come to the conclusion that we came to in January of 2021, February of 2021, March of 2021, January of 2022, February of 2022, and we are going to be saying the same thing in March of 2022 as well.

So I would love to hear how inflation is not having the negative impact that every other person in the country seems to be fully going through right now.

Ms. ROUSE. Senator Scott, look, we understand. The President understands your kitchen table economics and what people are concerned about around the table. Part of the challenge is we are in, we hope, only a 100-year pandemic. We have been living with this for 2 years. In this country we have had 900,000 deaths. The case is we are still living with this pandemic.

What is hard for all of us to understand and appreciate is what would have happened without the American Rescue Plan, without the other efforts of the Federal Government and the Federal Reserve to rescue this economy and ensure that we got through whole. I appreciate that is a very hard counterfactual to contemplate.

I am not saying that we are exactly where we want to be, but as we have highlighted we have had the strongest recovery, you know, on record. We are doing better than our peers. Unemploy-
ment has fallen dramatically. I would remind the kitchen table economists that when the President took office the economy was almost 9.5 million jobs short of where it was when the pandemic started, and we have recovered almost all of those jobs. So now people who want a job can get a job, that unemployment has fallen more quickly than it ever has in a recovery.

And so while we have challenges, there is no doubt, and the President is focused on doing what he can in the short term to try to ease supply challenges, to nominate the Federal Reserve nominees—and Senator Toomey, I will not say anything more about that. But we know that we need to get inflation under control. There is no question about it.

I think that the number one way that the President needs to be focused on, and we all need to be focused on, is getting this pandemic under control.

Senator SCOTT. Thank you, ma’am.

Ms. ROUSE. That this is all driven by the pandemic.

Senator SCOTT. Mostly because Chairman Brown is going to cut me off in a second, so I just want to finish up here, because I think it is really important. I think you make some really good points. Proving a counterfactual is implementation.

I, like many of my colleagues, would love to have been able to vote for four members of the Federal Reserve and get answers on the fifth one. I do think that unemployment has fallen, without any question, partially because the long-term unemployed should be absorbed in those numbers as well. As we all know, especially you all better than I, that the more people who are in the long-term unemployment line, the lower your unemployment rate goes.

And I will finally finish with this—because you have been very gracious, Chairman, with my time, and I appreciate that more than I can say—that the $1.9 trillion COVID relief package that had about 10 percent for COVID-related health, 1 percent for vaccines, and $1.6 or $1.7 trillion for spending that actually helped to fuel the inflationary impact that we are now trying to recover from has also been problematic.

Thank you, Mr. Chairman.

Chairman BROWN. Thank you, Senator Scott.

Senator VAN HOLLEN. Thank you, Mr. Chairman, and I do hope we will vote on the Federal Reserve nominees. Vote yes, vote no, but let’s vote on all of them.

We passed the American Rescue Plan just about a year ago because the pandemic had hit our economy hard. It had hit workers hard. Millions of Americans were out of work. And as you have testified today, and as the fact show—and I think those factors are uncontested—we have seen jobs come roaring back, over 6.6 million jobs, a record in the United States. We have seen very robust, real GDP growth of 5.7 percent in 2021.

Now one of the reasons we passed the American rescue plan was because families’ incomes were being squeezed when they were out of work. That included the $1,400 individual payments, did it not, Dr. Rouse?

Ms. ROUSE. Yes, it did.
Senator Van Hollen. And I keep hearing from our colleagues about how the real purchasing power of American families went down in 2021. It did not. Is it not the case that real disposable income grew in 2021?

Ms. Rouse. Well, so again I will just refer to our chart here, which is some new evidence from economists at U.C. Berkeley, and would suggest, especially for the bottom 50 percent, that if you look at their market wages before tax and before benefits, that they are better off today than in the last quarter of 2019. And then when you add in benefits and after taxes they are ahead.

So we know that inflation is a challenge, but household balance sheets have weathered it well.

Senator Van Hollen. Well, so look. If I am a household and what I look at is what is my purchasing power this year over last year, and is it not a fact that real purchasing power went up in 2021?

Ms. Rouse. It did. So these data suggest it did for most families, but we have to acknowledge that inflation has also been a challenge and has eaten into some of that purchasing power. But because due to the record GDP growth there has been a very strong recovery, so that household balance sheets are strong and many Americans are better off today than they were at the beginning of the year.

Senator Van Hollen. All right. And so, you know, as I look at that, when you factor in the individual payments from the American Rescue Plan, when you factor in the other relief, you know, taken together with people's wages, the data indicate that we have seen a growth in disposable, after-tax income, and especially so for lower-wage individuals.

Let us get to where we are now, because, you know, there has been a lot of year-over-year comparison with respect to real wages. And I think, Dr. Bernstein, I think I heard you clarifying something that had been said earlier. But if you look at January's figures with respect to real wages, what do we see?

Mr. Bernstein. I will tell you what we see but I will also give you the beloved CEA caveat, which is that we never read too much into any 1 month. We are always looking for trends. However, we also look closely at the jobs report, and it did show, in January, that the hourly wage beat the pace of inflation. I think the hourly wage was up, if I am remembering correctly, 0.7 percent; inflation was up 0.6 percent. Now that is 1 month.

But it is indicative of trends that you have heard about from all of us here today. The strength of the job market, that was a month where we had an upside surprise in job gains of 467,000 jobs, well above what was expected, and a job market that was powering through Omicron, that was very much upon the land that month.

We should also underscore what Chair Rouse was just talking about, that when the job market tightens up as much as it has, bargaining power, leverage among working people goes up disproportionately for those in the bottom half. And that is one of the factors that is behind the stronger wage growth in the bottom half and what you see there, vis-a-vis market incomes and disposable incomes.
Senator Van Hollen. So really quickly, if we are successful at beating this pandemic—more and more it does look like Omicron is on the downward trend, although you never know what will happen—but one of the issues we have seen, of course, is during the pandemic people purchased a lot more goods relative to what they purchased in services. In other words, that balance changed.

Can we expect that as people get back out and can go to restaurants and movies that that pressure, that price pressure on goods will come down, and how would that impact inflation, potentially?

Mr. Bernstein. That is certainly the dominant expectation, and it is one of the main reasons why forecasts for inflation predict that inflation will grow about half as fast at the end of this year than it did last year. That goods–service rebalancing helps in that regard because inflation in the goods sector, due to the dynamic that you are describing, has vastly surpassed that in the service sector.

But we will have to see, and look, forecasts have been wrong. And I think the thing that we are trying to stress here today, that both in terms of our Administration’s actions in terms of strengthening supply chains in the near term—our work at the ports, our work at the trucks—and our legislative agenda, including the Bipartisan Infrastructure Law and many of the productive capacity-enhancing measures in the Build Back Better agenda are extremely important to ease longer-term inflationary pressures.

Senator Van Hollen. Thank you. Thank you all. Thank you, Mr. Chairman.

Chairman Brown. Thank you, Senator Van Hollen.

Senator Tillis, from North Carolina, is recognized from his office.

Senator Tillis. Thank you, Mr. Chairman. Unlike what Chairman Brown insists, I think I can have competing concerns at the same time. I think I can be concerned that the Biden administration’s policies are propelling inflationary pressures higher, while I also believe that Ms. Raskin should provide answers to important questions. Thirty-six separate “I do not recall” statements are simply unacceptable. To suggest that these concerns are somehow mutually exclusive I believe is ridiculous.

Just this morning, Chairman Brown insisted his Finance Committee boycott in 2017 was because, and I quote, “They had not answered nearly enough of our questions.” Well, let us review Ms. Raskin under this standard, just articulated by the Chairman earlier in this Committee.

To date, Ms. Raskin has failed to provide numerous answers. Ms. Raskin began by failing to list her time at Reserve Trust, claiming to not even recall how she got the job. Ms. Raskin failed to answer repeated questions at her nomination hearing about her conduct lobbying her former colleagues at the Fed while at Reserve Trust.

Subsequently, Ms. Raskin provided 36 identical “I do not recall” responses to questions for the record. Ms. Raskin finally canceled and did not reschedule a meeting with Committee staff, and said that we could clear these issues up and get real answers to important questions.

So misrepresenting my objection to Ms. Raskin as simply not liking her shows a lack of understanding of my concerns.
Now, Mr. Chairman, or for the witnesses, I have been listening to the entire Committee hearing in my office, and I was really struck by what Senator Scott was saying. He used the term “kitchen table economist.” Well, I will use the term “trailer park economist,” because I was one of those back in the ’70s, when I saw spiraling inflation, wrong-minded policies from the administration, gas prices that were to a point where I could not afford to fill up a 12-gallon gas tank at about $5 at a time.

That trailer park that I grew up in is still standing in Nashville, and I will guarantee you if I went there today and I presented the graphics that are behind the witnesses and said, “You are better, right? We have had a historic recovery. We just saw the strongest recovery on record,” which was just stated by one of the witnesses a few minutes ago, my guess is they are feeling the same way that I did when failed policies of the past put us in this position. For us to suggest that people are not struggling, for us to suggest that somehow that buying power of those folks that are living in the same trailer park that I did is somehow stronger just absolutely conflicts with real-world experiences that we see out there every single day.

Mr. Chair, I also have to restate what Senator Toomey said earlier. For witnesses on at least more than two occasions to suggest that the way that we are going to fix the inflation problem is to get these board members confirmed, really, either they do not understand that we have a functioning board that can take action today or they do not want to acknowledge that fact because of an agenda to have these other four nominees confirmed before we get answers to questions. And, incidentally, we were prepared to vote on five out of the six nominations in the markup, until the Chairman decided to go all the way with the sixth nomination, Ms. Raskin, where we have serious concerns.

For the witnesses, 55 percent of the CEOs believe that we have an inflation problem. Why is it that you think we do not, or why is it that you think that this should not be top of mind for President Biden’s administration? Why is it, because you have mentioned Build Back Better several times, why is it that you think flooding a zone with even more liquidity is somehow going to fix the fundamental problems we have with this economy?

Ms. ROUSE. Thank you, Senator. So the President is very focused on the concern of price increases. He understands that the price of milk and gas have gone up, and that that is a real challenge for families. This is a President who cares about the middle class. That is his whole economic agenda.

Senator Tillis. If I may, because I want to try and be respectful of the Chairman’s time, but because I have heard you and others say that Build Back Better is the solution to the problem but I see several economists who say that it would cause inflationary pressures over the long term. It would take not months or weeks to recover from it but we would get back maybe to reducing inflation over the course of years. How on earth can we think that that is the right way to go about fixing the real-world problems that we have today?
Ms. Rouse. So look. Seventeen Nobel Prize-winning economists agree that Build Back Better is actually the antidote to inflation going forward, because it——

Senator Tillis. Yeah, going forward, but how soon?

Ms. Rouse. Because it——

Senator Tillis. Are some of these same economists saying that that could be a matter of years?

Ms. Rouse. The point is that Build Back Better is not stimulus. It is not meant to be deficit financed. The President has proposed that it be paid for and be fiscally responsible. It makes critical investments, and those investments will not cause inflation. In fact, they increase the capacity.

So it is not inflationary. I am not sure who you are referring to, but we know that this is ways to make everyday costs affordable for families, the very families you were referring to, in prescription costs, in childcare, and to ensure that people can get back to work, and so that our economy has got faster growth and it is more equitably shared. Yes, it takes time to build and to make those kinds of investments, but that is the kind of sustainable growth that we seek going forward.

Senator Tillis. Well, Mr. Chair, thank you for the time. I can just tell you that those folks that I am going to go visit back in that trailer park over the next week or so are probably going to say, “I do not have years to recover. I have months, maybe weeks to recover,” and we have to focus on the short-term crisis that we find ourselves in today.

Thank you, Mr. Chair.

Chairman Brown. Thank you, Senator Tillis.

Senator Smith, from Minnesota, is recognized.

Senator Smith. Thank you, Mr. Chair and Ranking Member Toomey.

So I am sitting here and listening to this discussion, and to listen to my Republican colleagues you would think this economy in the United States is going to hell in a handbasket, as my mother would say. And yet I am looking at the information here that we have got. In the first year of President Biden’s term economy has created over 6 million jobs, the unemployment rate has fallen to 4 percent, 3.1 percent in my State of Minnesota, wages increased by 4.5 percent as well.

I note that according to numbers released in January by the U.S. Census Bureau an astounding 5.4 million new business applications were filed in 2021. So this says to me that the American people are hopeful and are feeling that they can achieve something in today’s economy.

Now I am not saying that inflation, nor do I hear any of you saying that inflation is not an issue that we need to pay attention to. But let me dive into this a little bit.

A good friend of mine once said that for every complicated question there is a simple answer that is almost always wrong, and that seems to me to be the case when it comes to some of the conclusions that my Republican friends are attempting to draw when it comes to inflation.

So, Dr. Boushey, let me start with you. The question is why is inflation going up. One simple answer pushed by my Republican
colleagues is that President Biden and the Democrats have invested too much in the American people and that is why inflation is going up. Is that the right conclusion to reach, Dr. Boushey?

Ms. Boushey. Well, here is the thing. We are recovering from a historic pandemic. As Chair Rouse said, everything about our economy right now starts with that fact, that we have to get the pandemic under control. That is why we had the economic challenges. It is why we needed to take those historic actions to support families through this crisis. And it is why, at this point, even though we have supported families and 6.7 million people have a job today that did not a year ago—an incredible achievement, one that forecasters did not think that we would be able to do.

But that has meant that demand and supply are not in alignment, and, because of the pandemic, it has been hard for suppliers to get goods to shelves and people are not going out and doing things, buying services, at the same level that they used to. They are not going out to eat. They are not doing those things. They are buying stuff, but the pandemic has made it difficult for those things to get to market.

And there are examples all across the economy, but it is an imbalance in supply and demand. And it is because families have been supported through this pandemic. You know, that is a core part of the problem. They have jobs and so they can go out and buy these goods and demand them.

So yes, it is a complicated issue but it does not mean that the economy is all bad.

Senator Smith. Well, and it is not the correct assumption to draw, or conclusion to draw that the actions that we have taken are the reason why inflation is going up.

Dr. Rouse, this chart here shows that the inflation-adjusted income is rising for Americans in the bottom 50 percent of the economy. So what conclusion can we draw, based on what Dr. Boushey just said, about whether the strong action that we have taken has created more opportunity in the American economy as we have been struggling with this pandemic?

Ms. Rouse. Well, when Congress took action because of the pandemic there were two choices, right. Many people have been concerned about the spending, that we could not afford it, but there are two choices. We know that because we had to power down the economy, if action had not been taken that actually would have shrunk economic activity.

Senator Smith. Right.

Ms. Rouse. And so, therefore, we would have found ourselves with people with less income. We would have had less economic growth. Our economy would be smaller.

Instead, Congress, with you all and the prior Administration, this Administration, the Federal Reserve, thought it was more important to support the economy so that we could come out actually even stronger. In fact, the IMF has recently updated their forecasts, projecting that the U.S. economy will be stronger in 2024 than it was before, because of our actions.

So what was important was to maintain the economic activity so that we could get through this downturn stronger than when we came in. So that was the rationale.
Senator Smith. Thank you. And Dr. Bernstein, I mean, are not Americans better off than they were a year ago? Do we not have millions more Americans vaccinated? Do we not have most of our students back in school? Are not millions more Americans back at work?

Mr. Bernstein. Absolutely. And I want to underscore a point that you are making, using the graph that you held up. If you actually look back at the heart of the pandemic in 2020, where you see that big dip in the red line and a big increase in the other color line, which I am color-blind so I do not know what color it is—I will call it blue—that gap there is a good example of exactly what you are raising. Absent the fiscal support, incomes would have looked much more like the red line as opposed to the blue line. So this is really trying to underscore the quote, what it would look like without the support that Chair Rouse was talking about. So yes.

I think the thing that we never want to lose sight of is that, yes, families face an inflation challenge that the President underscores every time he talks about it, and we are not sitting there watching that. We are doing everything we can—near term, medium term, long term—with your help, to try to ameliorate those pressures.

Senator Smith. Well, and there is more that we want to do that we would like help from our Republican colleagues to do, like lowering prescription drug prices, like lowering the cost of childcare, like transitioning to clean energy so that our utility rates are lower. And so I think those are the things that we can do that we are already doing, thanks to the leadership of the President.

Thank you, Mr. Chairman.

Chairman Brown. Thank you, Senator Smith.

Senator Ossoff, from Georgia, is recognized from his office.

Senator Ossoff. Thank you, Mr. Chairman. Thank you for your service.

Ms. Rouse, I would like to discuss the affordable housing crisis faced by Georgians with you for a moment. Statewide home prices were up 19 percent year over year in December. I hear from constituents every day in places like Macon, Columbus, and Atlanta about the dream of home ownership and the ability to afford rental properties is becoming increasingly unattainable.

Of course, this is not a new phenomenon. The affordable housing crisis has been growing and brewing for over a decade.

First question for you please, Ms. Rouse, is will you commit to joining for a call or meeting with me, with Macon-Bibb Mayor Lester Miller, and Columbus Mayor Skip Henderson and Atlanta Mayor Andre Dickens to discuss how the White House can help support our efforts in Georgia to increase the supply of affordable housing?

Ms. Rouse. OK. You are putting me on the spot, Senator. What I will say—and I am open to considering the invitation—but we completely understand that the housing crisis is a longstanding crisis and it was not created by this pandemic but it was exacerbated by the pandemic, and that there has been a long-run mismatch between the supply of housing and the demand. And that is why the Administration has put a focus on this, through Build Back Better as well as, you know, things that the Administration can do
through administrative action. There is a discussion of tax credits and other supports, zoning and land use.

So we understand the very importance of housing. We need to solve this problem. It is not unrelated to the discussion of inflation, and we need more affordable housing.

Senator Ossoff. Ms. Rouse, thank you for that. What I am asking is not for a policy commitment. I am asking for a commitment for a phone call or a meeting with me, with Atlanta Mayor Andre Dickens, Macon-Bibb Mayor Lester Miller, Columbus Mayor Skip Henderson, to discuss how the White House can support our efforts in Georgia to increase the supply of affordable housing.

Ms. Rouse. I would be happy to join such a phone call.

Senator Ossoff. Thank you so much. I appreciate that.

Dr. Boushey, with business incubators located in cities like Augusta, Alpharetta, and Duluth, Georgia, is a place where entrepreneurship is thriving. We have diverse immigrant communities who are contributing to the growth of entrepreneurship and small businesses. An interesting fact about Georgia: We have the seventh-highest percentage of minority-owned startups in the country, and the bipartisan infrastructure legislation permanently authorized the Minority Business Development Agency, which will help minority entrepreneurs with technical assistance and access to capital.

How does, in your view, limited access to capital affect the growth of minority-owned businesses, and innovation more broadly? What policies might you suggest Congress can implement or the Administration can undertake to address this issue?

Ms. Boushey. Well that is a great question. Small businesses are the lifeblood of the economy all across these United States, so it is an important part of our economy that we need to support.

One of the things I want to note is that attention to who has access to capital is something that the Administration has been focused on since day one. When the President came into office he, as a part of his efforts to focus on equity, a whole-of-Government approach to equity, one of the things that we focused on was making sure that the Paycheck Protection Program, the support that went out to small businesses actually reached the intended businesses.

There is actually new academic research out, that just came out a couple of weeks ago, showing that those new efforts that were really targeted at reaching the most vulnerable small businesses, businesses led by owners of color and women, that we were successful in doing that, more so than previous iterations of the PPP program.

So that gives me some hope that with a focused attention on questions of equity and putting that together with making sure that small businesses have access to what they need that we can do that.

Senator Ossoff. Thank you, Dr. Boushey.

Dr. Bernstein, I have had the pleasure of visiting and working technical colleges and technical training institutions across the State of Georgia over the last year, since I took office. For example, I was with the leadership over at Gwinnett Technical College to understand more about the exciting workforce training programs they offer students, new innovations in robotic welding, they are offering training opportunities.
You know, my view and the view of many in my State is that we need to make it easier for Americans to access technical training, technical colleges, vocational training, to develop the skills that are necessary for steady, good-paying work in rapidly evolving industries with increasing applications of technology.

How, in your view, Dr. Bernstein, do workforce and technical training help improve productivity, opportunity in our overall economy?

Mr. Bernstein. They do so by making probably one of the most important connections we can make in the labor market, which is the skills of the workforce aligning with the demands of employers, particularly in sectors and areas where that demand is growing and those, of course, disproportionately tend to be in technical areas. So training workers for those jobs is so important, and the way you framed it is exactly right.

Decades ago—I have been involved in this for a long time—training was much too disconnected to job openings. It was more sort of getting yourself together, getting your act together in a way to be able to go out for work. We are much more focused now on employment-based training, connecting workers with employers’ demands.

Two other quick points. One, unions can be an essential force in making this connection, particularly through apprenticeship programs, and it is my understanding—I am trying to think back of all the different proposals we have made in this space—I do not think the Biden administration has made a workforce proposal that does not include apprenticeships. So a combination of unions, apprenticeships, and the kind of technical training that you suggested is absolutely integral to good jobs at good wages.

Chairman Brown. Senator Ossoff, thank you, and happy birthday a day late, Senator Ossoff.

Senator Cortez Masto, from Nevada, is recognized from her office.

Senator Cortez Masto. Thank you, Mr. Chair, and thank you to the panelists here today.

Let me just State the obvious, because I think some of my Republican colleagues obviously are out there stating the obvious, which is families and individuals are dealing with higher prices. What I did not hear from some of my colleagues was how do we address it? How do we find solutions working together to address it in the short term and long term?

I know one way to address it is to show up. I do not understand why my colleagues did not show up to the hearing the other day to reappoint Jerome Powell in the Federal Reserve, Lael Brainard to the Federal Reserve, and look at three new positions. I have not heard of their concerns about those individuals so it just disappoints me that they did not show up.

Why is this important? Because the Federal Reserve has the important monetary tools to help us address inflation, which we see corresponding to the high prices our families are dealing with right now. I see them in my State. I talk to my families. I talk to individuals. I see it at the gas pump when I fill up my tank. I see it in my own family, when my mother was going food shopping and she
is telling me the prices, and I see it when I am shopping or my husband is shopping.

So the obvious is there, but what are we going to do about it? And so this is the conversation I appreciate the panelists being here today, because unfortunately some of my colleagues are more about stating the obvious, not finding solutions.

But here is the area I want to focus on. Because of the high prices that I see in my State, including housing, this is an area that I have been talking to many within my State about how do we increase that supply chain to address the high housing prices. Dr. Bernstein, you talked a little earlier about this with Senator Warner, and highlighted the fact that we do have, whether it is 5 million or 7 million, we have a housing shortage here, and what can we do about working together with the Administration?

I appreciate your comments that we need to continue, and you are coordinating, and the Administration is coordinating with Fannie Mae, Freddie Mac, and Federal home loan banks that we are looking at continuing low-income housing tax credit, and it is important to continue that in the BBB.

Let me ask you this. In the Build Back Better bill there were some housing components that are actually going to address the housing supply chain, and there are a number of them, not just increasing the low-income tax housing credit authority, but there is reduction of bond financing threshold from 50 percent to 25 percent to address it. There is 50 percent basis boost for properties serving extremely low-income households that we are looking at.

We are looking at closing the qualified contract loophole to prevent the premature loss of units to early terminations from the program. We are looking at protecting nonprofit sponsors' ability to purchase properties at year 15. We are looking to coordinate housing credit and renewable energy tax credits. We are even looking at our Tribal communities that we know need affordable housing and looking at area 30 percent basis boosts.

These were all proposals that we were looking at in Build Back Better, and I can tell you, I am talking to members in my community about this proposal. This makes sense to increase the housing supply.

My disappointment is my Republican colleagues are not even there, working with us. I am hopeful that they hear this and are going to help us address this issue instead of just pointing fingers.

But can I ask you, based on the proposals that you have heard and some others, does that make sense? Are we working in the right area, the part of what we were looking at in Build Back Better to address that housing supply and address this issue in the short term and long term?

Mr. Bernstein. Not only does it make sense, but I do not see how we achieve the housing goals that you articulated, and that historically, partisans on all sides of the aisle have shared. As you have suggested, much of the policies that you are talking about typically involve increasing access to housing finance, more often than not targeted at the bottom half of the housing market, which is where the supply constraints have been most acute. And historically these have been bipartisan-supported measures. These, in many cases, are subsidies that go to builders, whose housing deals
simply do not pencil out in the absence of the kinds of measures you are talking about.

Now we have tried, as you know, in our Administration, to leverage funds for the capital magnet fund, to work with the FHFA to increase LIHTC equity investment caps significantly in order to again increase affordable financing for that sector of the market. And as you mentioned, in Build Back Better there are extensive tax credits for the supply side, grants to rebuild and renovate, and community block grants to renovate infrastructure related to housing, as well as to push back on exclusionary zoning.

Finally, what is particularly important about the comments that you have made is that every intervention that you have just elevated is on the supply side of the housing market. There is a demand side, and, you know, we can think about that and worry about that too. But the emergency is really on the supply side, and the financing policies that we have discussed answer the mail precisely there.

Senator Cortez Masto. Thank you. And I know I have run out of time and I will submit the rest of my questions for the record because I do have concerns about what the Administration is doing to restore international travel and our trade and prevent future instability in the hospitality sector.

But let me say this. This is a time for people showing up, working together to find solutions, not to state the obvious to families, individuals that they already know. It is time to show up. It is time to have solutions, come to the table and work together. Clearly there are solutions that are out there, but we need our colleagues to show up.

Thank you, Mr. Chairman.

Chairman Brown. Thank you, Senator Cortez Masto.

Senator Warren, from Massachusetts, is recognized.

Senator Warren. Thank you, Mr. Chairman, and Mr. Chairman, before I jump into my questions I would like to urge my Republican colleagues who are taking the time to attend the hearing today to also do their jobs and vote on the five outstanding Fed nominees. If you are going to talk to the witnesses today about inflation, for example, then you should be just as motivated to actually fight inflation by making sure that the Fed has all hands on deck, and that means voting these nominees through right now.

So let me turn to my questions. During President Biden’s first year in office, the economy added a record 6.6 million jobs, more jobs than those added in the first years of the past four Republican Presidents combined. Workers are benefiting too, with wages growing at their strongest pace in years. And this is particularly impressive because 1 year ago many economists were predicting that at this point we would still be caught up with high unemployment and slow economic growth as the world struggled to deal with the fallout from the pandemic.

But this good news has also brought some bad news—inflation. Now you might think inflation would also be bad for companies. After all, an increase in cost of doing business would likely eat into a company’s bottom line. But that is not happening. In fact, the CEOs of some of the biggest companies have been bragging to their
investors that inflation has created a terrific opportunity for them to boost profits.

Take the grocery chain, Kroger. Kroger has seen its business boom during the pandemic, with its stock price rising nearly 40 percent over the past year. Kroger’s CEO recently told investors that, quote, “A little bit of inflation is always good in our business,” end quote.

So Dr. Boushey, would you agree that it is easier for companies like Kroger to raise prices in an inflationary environment because consumers are generally aware that prices are going up and that lets companies hide behind inflation to expand their profits?

Ms. Boushey. Well as you know, Senator, President Biden is very attuned to kitchen table budget issues, and he has been very focused on asking the regulatory agencies to be on the alert for price gouging. And I have in front of me a long list of things that have been happening over the past year on his work to make sure that markets are competitive and fair.

But let me just note one, which is the Department of Justice and the USDA have worked together to set up a website where farmers and ranchers can say where they see problems in their industry, and that is just one of many things. So it is an important issue.

Senator Warren. So an important issue. But the point I am trying to make here is the companies get to kind of draft in behind the inflation, and I take it you agree that that is what is going on here.

OK. I see you nodding your head yes. I will take that as a yes.

Let me go to another example. In a call with investors last week, the CEO of Tyson Foods, one of the big four conglomerates that controls as much as 85 percent of the meat market, said they have, quote, “restructured our pricing approach,” end quote, and are, quote, “asking them”—the consumers—“to pay for inflation,” end quote.

Dr. Bernstein, if all Tyson was doing was raising prices to offset their production costs due to inflation, would you expect their profit margins to stay roughly the same?

Mr. Bernstein. Roughly the same.

Senator Warren. Roughly the same.

Mr. Bernstein. Their price increases would offset their cost increases——

Senator Warren. Right.

Mr. Bernstein. ——which would hold their profits.

Senator Warren. OK. So their profits should stay roughly the same.

Mr. Bernstein. Roughly the same.

Senator Warren. If that is all that was going on.

Of course, that is not what happened. Tyson nearly doubled its profit margin over the year, to 11.3 percent, only the fourth time in the last 30 years that the company has achieved double-digit profit margins.

And Tyson is not making record profits because it is selling more. In fact, it is making record profits because it is charging more. The number of beef products it sold declined 6 percent over the year while the price of beef went up 32 percent.
So let us do one more example here. Another phrase we hear thrown around is “pricing power.” In a recent interview, the CEO of Chipotle said, “We are pretty fortunate with the pricing power that we have,” end quote, and that, quote, “If we need to take more pricing we have room to do it. To date we have seen no resistance from our customers,” end quote.

Now this sounds a lot to me like what Fed Chair Powell said when he was here last month. Big companies are, quote, “raising prices because they can.”

So Chair Rouse, let me ask you. For those of us who do not speak economist, is it right to say that when executives talk about pricing power they are referring to a company’s ability to raise prices and extract profits out of consumers without worrying about losing business?

Ms. ROUSE. I would say it is fair to say that a company has pricing power when raising prices will not cause them to lose too many customers.

Senator WARREN. And could I just ask—I know I am out of time—what is it that gives companies pricing power? Does concentration in an industry give companies more pricing power?

Ms. ROUSE. So market concentration does tend to create more pricing power, which is one reason why increasing competition is such an important component of the Administration’s economic agenda, because we know that increased competition also helps workers, spurs innovation, and generally helps markets function better.

Senator WARREN. Well, thank you very much. I appreciate it. Thank you, Mr. Chairman. And I just want to say, I am glad the Biden administration is not standing by. We can go after this concentrated power, industry by industry, and that is what will help bring prices down.

Chairman BROWN. Thank you, Senator Warren.

Senator Warnock, from Georgia, is recognized.

Senator WARNOCK. Thank you so very much, Mr. Chairman. Rising costs for families, as my colleague as indicated, is a persistent problem, and it is one that I am hearing from Georgians about every day. And it seems to me that part of fighting against rising costs is ensuring that Federal Reserve, the independent agency charged with managing inflation, has the leadership necessary in place. It seems a contradiction to me to talk about rising costs and to leave the Federal Reserve hamstrung.

So I would encourage my colleagues on the other side of the aisle to join us in holding a vote on the five qualified, diverse nominees in front of us.

I have introduced a bill with my colleagues to suspend the Federal gas tax, and in our bill Treasury would ensure that these savings at the pump are passed on to Georgians, cutting their gas costs. Still, every day we see headlines that large corporations and their wealthy investors have sought to take advantage of market volatility to pad their bottom line and enrich themselves while hard-working Americans are the ones making difficult decisions with their pocketbooks. They are seeing record profits. Consumers in Georgia are paying record prices.
Dr. Bernstein, can you talk about some of the consequences of market concentration and corporate consolidation in this economy and over the past decades, and has this made corporations more powerful?

Mr. Bernstein. Questionably so in terms of industries that are highly concentrated. We have mentioned meatpacking, and you just heard Chair Rouse talk about some of the pricing implications of concentration, particularly an increase in price levels relative to an industry situation with considerably less concentration. So we share your intuition there.

Senator Warnock. Dr. Rouse, would you share that opinion?

Ms. Rouse. Absolutely. It is why the President signed an all-of-Government effort. He signed an EO last summer to try to increase competition. We have seen increasing concentration, and I believe it is three-quarters of industries. We know that with increased concentration not only are firms able to raise prices relative to a more competitive market but it generates less innovation, it can be worse for workers, and generally not good for our economic health.

Senator Warnock. It is one of the reasons why I have been urging a Federal investigation into apparent price gouging by international cargo carriers. We look at the supply chain issues. Of course, that is an important nexus point, and that price gets passed on to the rest of us. Can you say something about that, Dr. Boushey?

Ms. Boushey. Yes, that a good [inaudible].

Senator Warnock. OK. Let me move on to another question. The expanded Child Tax Credit, the largest tax cut in American history for working and middle-class families. Let me say that again because I think that gets lost in the conversation, and when you say expanded Child Tax Credit the average person may not know what you are talking about. We are talking about the largest tax cut for working and middle-class families in American history. And it seems to me that making this tax cut permanent would go a long way. It would certainly cut childhood poverty in half all across our country.

Now I have heard arguments that this tax cut would contribute to the rising costs we are all experiencing, but when I talk to Georgians I hear that this money goes toward everyday expenses. Georgians have told me that the tax credit helped them to pay for health expenses, pay off debt, buy a coat for their kid.

Dr. Rouse, do you think that the concerns that the expanded Child Tax Credit would add to rising costs are justified?

Ms. Rouse. So the Child Tax Credit we know has immense benefits for children, both in the immediate term in terms of reducing food insecurity, child hunger, child poverty. It improves their educational outcomes. It generates outcomes. These similar kinds of programs generate positive benefits as adults. They are more likely to work, increasing labor supply. As adults they have less criminal activity. So it has tremendous benefits for the children and improves the mental health of their parents. So there are tremendous benefits there.

We do not believe that the Child Tax Credit would be increasing inflation, in particular, because the increase is just so small that it is modest relative to the size of the economy. And furthermore,
under the President’s plan, any increase in the expansion of the Child Tax Credit would be paid for. So we do not share that concern, and we believe that the benefits of the Child Tax Credit is part of an overall effort to invest in children. Again, it is an important investment for increasing the economic capacity.

Senator WARNOCK. So it is a net benefit to the economy and the economies of these families.

Ms. ROUSE. Absolutely.

Senator WARNOCK. OK. Thank you.

Chairman BROWN. Thank you, Senator Warnock.

Senator Reed, from Rhode Island, is recognized.

Senator REED. Thank you very much, Mr. Chairman, and I thank the panel for their testimony and insights today.

Dr. Rouse, labor participation rates are falling while demand for labor is increasing. Do you have any insights into why labor participation rates are falling and what we might do to raise them up?

Ms. ROUSE. Well hello, Senator Reed. So labor force participation fell at the beginning of the pandemic, but actually we have had one of the fastest recoveries in labor force participation on record. So if we look at prime-age labor force participation, those are Americans 25 to 54, has recovered 2.1 percentage points of the 3.1 percentage points that were lost at the onset of the pandemic.

We know that participation is a little slower to recover than unemployment, after a recession, but our participation growth has actually been relatively strong.

What you are probably referring to is we also see record numbers of job openings, so we have a very tight labor market. So there is no question that some people are not participating due to concern out of the pandemic, but let us also keep in mind that at the onset of the pandemic we were almost at the height of the baby boom retiring. So even just looking at what would have been the change in labor force participation in our labor force without the pandemic, we would have seen a decline. In addition, with the pandemic we have seen excess retirements.

So many people, I think, will be coming back as the pandemic gets under control, but let’s face it, we do have a labor force challenge in this country. Declining fertility, immigration has been stymied due to the prior administration. And then with the pandemic we need to find ways to be improving our labor force participation and our labor supply because that is part of economic growth.

Senator REED. Related to that, as nominal wages are rising because of the tight labor market, as we see more people coming back with the end of the pandemic, we hope, can we sustain this nominal wage growth?

Ms. ROUSE. You are right, Senator, that right now a lot of the wage growth is due to the fiscal support, and what I call “pandemic economics.” So we see wages rising in nominal terms.

But honestly, the President’s economic agenda—so this includes the Bipartisan Infrastructure Law, and it includes USICA, it includes Build Back Better, which are designed to make important investments in our economy—should have the benefit of increasing labor productivity so that what we have are sustained wage gains that are due from increasing labor productivity and therefore sustainable, and should be benefiting those at the lower end of the
wealth, income, and rate distribution, those in the middle, therefore more equitably shared.

Senator Reed. In fact, the President’s program is very specifically directed at trying to maintain wage growth for low-income, middle-income Americans, very deliberately and very consciously.

Ms. Rouse. It is. It is not only by ensuring that the kinds of jobs that they have are well compensated and high-paying jobs but also by lowering—making everyday costs more affordable—prescription costs, childcare costs—so that just overall family well-being and household balance sheets are growing and sustainable.

Senator Reed. Thank you.

Dr. Bernstein, you spoke very insightfully about the housing crisis we are facing today. First a question. With the anticipated rate increases by the Federal Reserve, do you think that will cool housing prices significantly?

Mr. Bernstein. Historically, increase in the Federal funds rate show up fairly quickly in mortgage rates, and we are seeing some of that, and yes, that puts some dampening pressure on the growth in home prices.

Senator Reed. But the rise in housing prices has been so significant that even with a dampening housing is out of reach of many Americans, way up into the middle class. This is not just an issue of——

Mr. Bernstein. Yeah. So that is exactly the right way to think of it, in my view. We have referenced that a few times in the hearing today, the idea that the Fed, the work of the Fed tends to operate through the demand side channel. What is really plaguing the housing market, particularly the bottom half, is the supply side. And there we have tried to do what we can and have helped to support the creation, delivery, and preservation of about 100,000 affordable housing units over the next few years.

But the task, the challenge of literally a decade of insufficient housing supply, particularly in the bottom half, is nothing that any Administration can do by itself. It requires bipartisan support through the kinds of measures that we have been talking about today, and measures that this Committee, again, historically, on both sides, have supported, particularly when it comes to housing finance and ensuring that deals in the bottom half can occur.

Senator Reed. I would add another factor here, is that there is a critical role for State and local government, because land use planning and other factors might be as big a constraint on the housing supply. But I think the Administration’s commitment and also through the money we have given to States, Governors’ commitments to increase affordable housing, is significant. It is now a front-page issue. Ten years ago it was——

Mr. Bernstein. You are exactly right to raise zoning. I do not think we solve this problem without dealing with exclusionary zoning issues.

Chairman Brown. Thank you, Senator Reed, for your insight.

Senator Toomey, in closing.

Senator Toomey. Thank you, Mr. Chairman. I will just observe briefly, I think it is simply indisputable that with inflation running at a 40-year high, 7.5 percent annual inflation rate, wages are not keeping up, and that means Americans are falling behind.
I think it is also very clear that super-easy money and too much spending by Congress are two of the principal causes. It appears as though there is going to be some reining in of the former. It is just really important that we not engage in yet another spending spree, which will only make it worse. Thank you.

Chairman BROWN. Thank you, Senator Toomey. Thank you to Chair Rouse, especially, and also, of course, to Dr. Bernstein and Dr. Boushey, for sharing your insights today about the strength of our economy and making it work better for all Americans, and I know you emphasize that always.

Our goal is simple. We want everyone to be able to get a job that pays good wages and can afford to raise a family and retire with dignity. We want the cost of living to be affordable so people’s paychecks are not eaten away by expenses. We are making tremendous progress on jobs, as you and those charts certainly point out, giving workers more options, more power to negotiate higher pay and better working conditions. You all understand the importance and the advantage of carrying a union card.

Our charge now is to keep that progress. If you work hard you ought to be able to afford a middle-class life. It is that simple. It is something President Biden for sure understands. I look forward to continuing our efforts to make sure our economy reflects the dignity of work.

For Senators who wish to submit questions for the record these questions are due 1 week from today, February 24. To the members of the CEA, please submit your responses to questions for the record within 45 days from the day you receive them.

Thank you again for your testimony. This Committee is adjourned.

[Whereupon, at 12:14 p.m., the hearing was adjourned.]

[Prepared statements and responses to written questions supplied for the record follow:]
PREPARED STATEMENT OF CHAIRMAN SHERROD BROWN

Every day, Americans get up, go to work and do their jobs. But our Republican colleagues refuse to do theirs.

On Tuesday, this Committee met to vote on five outstanding nominees for the Federal Reserve. But Republicans didn’t show up. Instead, they went AWOL in the fight against inflation.

At this pivotal moment in our economic recovery, everyone understands that we need a full Federal Reserve board—the first one in nearly a decade—to help tackle inflation. Republicans engage in political stunts but have no solutions. Americans don’t want more political theatrics, they want solutions to bring down costs.

We will not stop fighting for these nominees. These nominees have met with every Senator who asked for a meeting. They met with staff of senators who asked. They met with Committee staff—majority and minority. They offered to meet with many of my colleagues who refused to meet with them—and then boycotted the vote. They answered every question posed to them at the hearing. They answered every question submitted for the record, more than 200 of them, in a timely matter. One nominee even answered questions submitted after the deadline.

If we’re going to continue growing our economy, we need all seven Fed Governors in place. We need these professionals—working and debating and making decisions—about monetary policy, and interest rates, and jobs, and tackling inflation. I implore my Republican colleagues to show up and vote—vote yes, vote no, just show up and vote. It’s your job. I implore—and the American people expect—for you do your jobs, just like they do every day.

Let me read a few headlines from the past few weeks: “Strong Jobs Report Shows Resilient Economy”; “January Jobs Report Crushes Expectations”; “Biden Sets First-Year Record With 6.6 Million Jobs Added”.

In my State—long derided as the “Rust Belt”—Ohioans have been waking up to headlines like these: “Intel Picks Ohio for Largest Chip Factory in the World”; “Hyperion Fuel-Cell Company To Open Largest Columbus Factory in a Decade”; “GE Aviation Lands $6.8 Billion Engine Deal in Sign of Rebound From Pandemic”; “Intel’s Investment: Gamechanger for Ohio Jobs”.

America is in the midst of unprecedented economic growth.

Our GDP grew by 5.7 percent last year—the strongest annual growth in nearly 40 years. For the first time in two decades, our economy grew faster than China’s.

Job creation hit an all-time high. We added 6.4 million jobs last year—an average of more than half a million jobs a month. We saw the fastest drop ever in the unemployment rate.

American entrepreneurs started more than 5 million new businesses in 2021—another record.

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. Wages are rising—particularly for hourly workers who have been left behind in past economic recoveries. Workers are finally starting to share in more of the economic growth they create.

American families’ disposable incomes were higher in 2021 than they were before the pandemic, even adjusting for inflation. As Assistant Secretary of Treasury Ben Harris said 2 weeks ago, “household balance sheets were exceptionally healthy due in part to the American Rescue Plan, other Government pandemic assistance, and brisk wage growth.”

All of this progress was possible because of the American Rescue Plan. We promised shots in arms, money in pockets, and workers back on the job.

And the Rescue Plan delivered.

Of course we know that challenges remain. For all the progress we’ve made, we can’t deny that many of the people we serve say they don’t feel it.

People are exhausted. They’re tired of this pandemic, they’re tired of the anxiety, they’re tired of the way that it’s divided neighbors, divided schools, divided families.

The number one thing we can do to improve our economy and improve people’s lives is to defeat this pandemic.

And we are on the right course. Cases and hospitalizations are dropping. Because of the American Rescue Plan, most Americans are vaccinated. Everyone can get a booster shot. We no longer have to live in fear.

We also know that the pandemic has caused inflation to run too high. Workers feel it every time they go the grocery store or fill up the gas tank.

Inflation is a real problem and one that we, as a country, need to address head on. It’s all the more reason why we need a full Federal Reserve board.

The pandemic has revealed that our supply chains are too long and too fragile. It’s causing higher prices in some industries. No one wants to have to go to three
different stores to get all their shopping done, or to have every option they try to buy on backorder for months. It’s maddening, it’s draining, it’s frustrating.

We know how to fix it—make more things in America.

For too long, our trade policy and our tax policy have encouraged corporations to move production overseas. It’s cost us millions of jobs, and it’s contributing to our supply chain problems today.

It’s time to bring those supply chains back home.

The House and Senate have both passed bills to spur domestic manufacturing, research, and development. They would allow us to better compete with countries like China, and would support the production of key inputs like semiconductors. We should put a comprehensive bill on the President’s desk as soon as possible.

We also took an important step to speed up our supply chains by passing the bipartisan infrastructure bill. It will improve our roads, bridges, and ports—making it easier and more efficient for American manufacturers to get products to market.

As important as all of these steps are, Government is not the only actor here.

Corporate consolidation is reducing competition, giving consumers fewer choices and workers fewer options. It allows corporations to increase prices while cutting and what’s really ironic for their executives and shareholders.

The Wall Street Journal tells us that two-thirds of the largest publicly traded companies have reported larger profits in 2021 than in 2019. In recent weeks, CEOs have bragged to Wall Street about their ability to increase prices on consumers.

Let’s be clear: raising prices is a choice corporations make. They could make a different choice: they could reduce the amount of stock buybacks. Millionaire executives could take a pay cut—or even just get a slightly smaller raise this year.

But there’s nothing forcing them to make a better choice, because there isn’t enough competition in the economy.

We need an economy that works for everyone—not just those at the very top.

We cannot declare the recovery complete until all workers can find a job that pays them fair wages, that treats them with dignity, and that allows them to keep up with the cost of living.

Today we will hear from all three members of the Council of Economic Advisers—Chair Rouse, Dr. Bernstein and Dr. Boushey.

These are skilled economists who understand that behind all the models, charts, and tables are real people with hopes, dreams, and ambitions.

As Chair Rouse said in January, the actions that the Biden administration has taken have led to "unprecedented improvement in our economy and important investments made in its future productive capacity."

I look forward to hearing more about this year of unprecedented growth, the current state of the economy, and plans to continue this expansion.

PREPARED STATEMENT OF SENATOR PATRICK J. TOOMEY

Mr. Chairman, I’ll start by observing it’s a little bit rich to be lectured by the Chairman about not attending a markup of nominees when the Chairman personally led the Democratic boycott of the Senate Finance Committee markup of two Trump nominees. There were several other Democrats on the Committee who participated in that boycott. I guess what’s good for the goose is not good for the gander.

It’s also rich to hear wailing and gnashing of teeth about vacancies on the Fed board and this newfound Democratic concern over inflation. First of all, I and my Republican colleagues have been on record for well over a year warning about inflation risk, warning about the excessive spending.

Democrats criticized us for wanting to normalize interest rates and Fed policy. And yet here our Democratic colleagues are pushing for yet another inflation fueling spending blowout bill.

The fact is the Fed is fully functional. The FOMC has 9 of its 12 members in place. They could raise rates today if they wanted to. They could do it tomorrow. They could do it at any time.

But what’s really ironic is that it’s the Chairman’s decision not to move five nominees forward. We made it clear and I made it clear last week to the Chairman repeatedly, publicly, and privately. We’re perfectly happy to vote on five of the six nominees. That would be four Fed governors and the director of the FHFA. If we did, actually most of them would get considerable Republican support. They’d move on.

And if there were a concern about vacancies on the Fed, the Chairman could fix that very quickly. He chooses not to, he prefers to have the vacancies. That’s his choice.
It's also interesting how some of my Democratic colleagues have been so passionate about ending the revolving door. I think you could argue some have practically made a career out of railing against the revolving door, where people go from a powerful Government regulator to go work for the industry that they regulated, enrich themselves and then maybe they come back to do it for another loop. Is there a more archetypical example than Ms. Raskin?

Senator Warren recently tweeted and called Randy Quarles “corrupt” because after he left the Fed, he went back to the firm, the private equity firm that he had founded himself. So I guess it’s corrupt if a Republican does that. But the rules don’t seem to apply in the other direction.

The Chairman said that the candidates answered the questions. Let me be very clear: Ms. Raskin was far less than candid with us. She failed to disclose that she even was a director of Reserve Trust. She failed to disclose the 1.5 million dollars she made for that service. She failed to disclose hundreds of pages of writing and hours of speeches.

When she was asked how did she get on the board of Reserve Trust in the first place, she said she couldn’t recall. Which is odd because the founder and Chairman says in an article in today’s Wall Street Journal that he’s known the Raskins for decades.

When Ms. Raskin was asked if she ever contacted the Fed on behalf of Reserve Trust, first she evaded the question repeatedly. But then eventually she replied by saying she couldn’t recall.

Well, that’s funny, because the Kansas City Federal Reserve President recalled the conversation very well. The chairman of Reserve Trust recalled the conversation. He wasn’t even part of it. But we’re supposed to believe that Ms. Raskin just couldn’t recall.

And let me remind everybody why this is important. Reserve Trust is a fintech company based in Colorado. And it applied for something that’s extremely valuable: a master account at the Fed. To my knowledge, there’s not a single fintech in America that has gotten that.

And unsurprisingly, they were denied. Their application was turned down. Then, Ms. Raskin who was on the board, called the Fed. And shortly thereafter, the Fed does a 180 degree reversal and approves the master account.

To the best of my knowledge, as of today, there’s a grand total of one fintech in America that has a master account with the Fed and it is Reserve Trust.

So we asked an obvious question. Why the reversal? Why the 180 degree change? What changed?

First we get stonewalled. Then we finally get a partial answer from the Federal Reserve Bank of Kansas City. Let me just quote one sentence that summarizes it. The Federal Reserve Bank of Kansas City says, “after its denial”—and that’s a reference to the denial of the master account application—“after this denial [Reserve Trust Company] changed its business model and the Colorado Division of Banking reinterpreted the State’s law in a manner that meant RTC met the definition of a depository institution.”

That’s from the Federal Reserve Bank of Kansas City. My problem with that is on Tuesday night, the Colorado Division of Banking says that’s not true. And this is what they said, and I quote, “we consider the statement that the division reinterpreted the State’s law as a misrepresentation of our practice.”

So it remains entirely unclear what happened here. All we know is that Ms. Raskin was in the middle of it. The firm on whose board she sat applied for a very, very valuable account with the Fed. They were turned down. She intervenes, they get approved, and we can’t get an explanation of what happened here.

Is that fair to all the other fintechs across America that would also like to have master accounts, and they’ve been turned down? How is that fair to anybody?

And how is this Committee doing its job if we don’t insist on getting some answers to this question? But we get stonewalled. We get answers from the nominee that she can’t recall. And we get basically nothing from the Fed.

So, Mr. Chairman, it’s your choice if you want to continue to preclude the possibility of having four nominees from the Fed confirmed and the FHFA Director. We are quite happy to process those nominees. But we want answers before we vote on Ms. Raskin.

Let me just close with a quote justifying a boycott of a recent markup of nominees. And I quote, “by refusing to demand honest transparent information about the business dealings of these nominees the Committee failed to do its job on behalf of the American people.” That is Sherrod Brown, February 1, 2017.
Chairman Brown, Ranking Member Toomey, Members of the Committee: Thank you for inviting me and my colleagues, Heather Boushey and Jared Bernstein, here to testify today.

Just over a year ago, President Biden entered office with a full agenda: a pledge not only to fight the pandemic and support economic recovery, but also to rebuild our economy for sustainable and more widely shared growth. Success was not preordained: the country faced a still-raging pandemic, a weak economic recovery, and historic job loss.

Thanks to the collective efforts of the Administration, Congress, and the Federal Reserve, we have been able to recover with strength and speed. And importantly, we have begun to lay the groundwork for an economy that is stronger, more resilient, and more equitable.

Over the last year, millions of Americans have gained protection from the worst of COVID–19, businesses have been able to resume activity, and children are back at their school desks. Economic recovery has been strong. In 2021, GDP grew faster than it has in almost 40 years and the U.S. job market gained 6.7 million jobs. Unemployment is down to 4 percent—years earlier than projected. Child poverty is likely to be reduced by almost 40 percent in 2021.

The American Rescue Plan (ARP) was a critical component of this recovery. It served as an insurance policy to address the uncertainty of a global pandemic, and support the economy as the virus—and the tools to tamp it down-evolved. The emergency measures worked, resulting in a robust economic turn-around. Families and businesses have had the means and resources to cope in the short-term; ultimately, workers and small businesses have avoided the lasting damage we typically see when economic crises are allowed to linger.

But as President Biden has made abundantly clear, helping Americans weather the pandemic is simply part one of his economic vision. The Administration’s strategy encompasses what the President and Treasury Secretary Yellen have called “modern supply-side economics”—that is, we must make investments in our economy to boost labor supply, raise productivity, reduce inequality, and create strong, sustainable growth.

The Bipartisan Infrastructure Law is a historic step toward realizing that vision, providing long overdue investment in our Nation’s roads, bridges, water systems, and broadband infrastructure. We commend the bipartisan work of many on this Committee for making these necessary investments, and know your governors, mayors, and constituents are grateful.

Unlike the ARP, which was short-run relief designed to be spent out over the course of the pandemic emergency, the infrastructure law will be spent out across the country over years, building and strengthening the foundation our economy needs to increase its productive capacity.

Other Administrative actions this past year will also contribute to long-term economic growth. Examples include the whole-of-Government approach to increasing competition in markets, addressing climate change, and fostering greater equity.

Of course, challenges remain. The gains in our economy have taken place against the backdrop of a once-in-a-century pandemic economy, where what we know about downturns and recoveries has been tested. Vigilance is required to ensure we do not backslide when curveballs like Omicron come our way.

And Americans are feeling the pinch of inflation—at the pump, in grocery stores, and in the marketplace. The pandemic itself has been a major driver: consumers have shifted their spending from services to goods and global supply chains have been severely tested. A lack of workers has stymied the supply of goods and services as well.

In the near-term, the principal tools to curb inflation rest with the Federal Reserve, which is why it is critical to confirm the five highly qualified nominees now. The Administration also has some tools it can employ, as demonstrated in recent actions to improve supply chain disruptions at the ports and increase the capacity of the trucking industry.

In the longer-term, we must make real investments—be that in our roads and bridges, or people and ideas. Sustainable growth will only come about if we are able to increase economic capacity and allow more Americans to participate productively in our economy. The economic challenges of 2022 must, of course, be met, but we must also lay a foundation for future generations.
In doing so, we must create an economy that rewards work, not wealth. The Administration’s economic agenda aims to ensure that those in the middle class, who have largely been left out of economic investments for the past 40 years, will finally benefit, ensuring that growth is more broadly shared.

We need Congress to act on the President’s full economic agenda to achieve these goals: providing necessary funding to continue to address the pandemic and keep the economy functioning; passing USICA to bolster competition and build resiliency into the market; enabling the energy transition to curb climate change; and making Build Back Better a reality so that families can afford the needs of everyday life—like prescription drugs and childcare. As noted by 17 Nobel Prize winning economists, these long-term investments not only build a stronger economy but also ease longer-term inflationary pressures.

President Biden’s economic vision is predicated on the fact that the economic status quo has not worked for all Americans—for decades, it largely benefited those at the very top. We share his vision for a stronger and more equitable economic future for our country.
RESPONSES TO WRITTEN QUESTIONS OF
SENATOR CORTEZ MASTO FROM CECILIA ROUSE, JARED BERNSTEIN, AND HEATHER BOUSHEY

Q.1. Hospitality and Tourism—Nevada’s hospitality sector has had persistently higher than average unemployment; nearly twice as many leisure and hospitality workers are out of work compared with the national average across industries. In addition, emerging variants and lagging vaccinations rates have led to only a partial return of business travel, trade shows, and international travel has occurred. For instance, attendance at the Consumer Electronics Show, a significant annual convention and source of operating revenue, fell by more than 75 percent due to concerns about the emerging variant: Omicron. Many businesses in the tourism and hospitality industry have faced narrower margins and have had to reduce their offerings due to supply chain constraints.

What is the Biden administration doing to restore international travel and our trade shows and prevent future instability in the hospitality sector?

A.1. Starting on November 8, 2021, the Biden administration implemented a new international travel system that helped restore safe travel to the United States from the 33 countries that were previously subject to limitations on travel. The implementation of this new system contributed to an increase in international travel to the United States while protecting the American people by putting in strict, consistent protocols around the world.

While incoming land border crossings into the U.S. have not recovered to their prepandemic levels, the 12.85 million passenger and pedestrian crossings in February 2022 are a large increase from last year’s volumes, reflecting increases through 2021 and particularly strong increases in the third quarter. Air travel is also well on its way to recovering to its prepandemic level. As of April 3, 2022, the total amount of passengers flying in America was nearly 90 percent of what it was on the same day in 2019. In 2021, air travel on April 3rd was only two-thirds its 2019 level, and in 2020—during a period of intense lockdown—it was only 5 percent of what it was in April, 2019.

Q.2. How can we strengthen and shorten our supply chains for the inevitable next wave or next Pandemic? Where should we prioritize investments in new domestic and global supply capacity, including manufacturing and transportation?

A.2. As the question suggests, shortening supply chains (reducing lead time) is a key way of increasing resilience. Important strategies for doing so are for firms to better understand the structure of their supply chains (visibility), invest in backup capacity (redundancy), and improve their ability to solve problems and substitute between inputs (agility), as well as vertically integrating components of the production process. Private firms are increasingly aware of the value of investments in these capabilities.

However, sometimes market failures make it unlikely that a private firm will invest enough in resilience; factors giving rise to

---

1https://www.reviewjournal.com/business/conventions/ces/ces-attendance-down-more-than-75-organizers-say-2509439/
market failures include the importance of resilience for national and climate security and the frequency with which investments in supply chain resilience made by one firm benefit other firms as well. The U.S. Government should prioritize investments in industries where market failures such as the above are present, and/or are key to meeting national goals. Such industries include semiconductors, clean energy, and health (medicines, vaccines, and personal protective equipment). In addition to industry-specific investments such as these, the Government should also invest in improved capability to monitor supply chains, develop and diffuse best practices for managing supply chains, and help finance innovation and workforce training, especially by the small suppliers that make up a significant portion of U.S. supply chains.

Much more detail on these issues of supply chain resilience will be available in chapter 6 of the “Economic Report of the President”, forthcoming in mid-April.

Q.3. Immigration—The CEO of the U.S. Chamber of Commerce recently shared that immigration reform could help reduce inflation and address the labor shortages that we’re currently seeing in key industries.

What is the impact that immigration reform would have on inflation, labor shortages, job creation, and economic growth?

A.3. Reform that increases immigration to the United States would likely increase economic growth and job creation in the long run, a conclusion supported by a comprehensive review of research on immigration conducted by the National Academies of Sciences. Immigrants are both potential employees and potential customers for existing businesses. They also increase innovation and entrepreneurship. Over time, this adds up to a larger economy with more jobs and a higher standard of living.

Immigration reform that makes it easier for undocumented immigrants already in the United States to work legally could also address more immediate labor shortages and potentially help reduce inflation. Right now, these immigrants are already contributing to demand for goods and services, which may put upward pressure on prices in some cases. However, their ability to contribute to supply, and to fill jobs in critical sectors that are experiencing labor shortages, is limited by their lack of legal authorization to work. Granting such authorization would free them to do jobs that use their skills well, including jobs that employers are currently having difficulty filling.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR DAINES FROMcecilia rouse, jared bernstein, and heather boushey

Q.1. Do you believe corporate greed is causing the inflation we are seeing throughout the economy?

A.1. Healthy market competition is fundamental to a well-functioning U.S. economy. Basic economic theory demonstrates that when firms have to compete for customers, it leads to lower prices, higher quality goods and services, greater variety, and more innovation.
There is evidence that in the United States, markets have become more concentrated and perhaps less competitive across an array of industries: four beef packers now control over 80 percent of their market, domestic air travel is now dominated by four airlines, and many Americans have only one choice of reliable broadband provider. There are a number of reasons for these trends towards greater concentration, including technological change, scale economies, the increasing importance of “winner take all” markets, and more lenient Government oversight over the last 40 years.

When there is insufficient competition, dominant firms can use their market power to charge higher prices, offer decreased quality, and block potential competitors from entering the market—meaning entrepreneurs and small businesses cannot participate on a level playing field and new ideas cannot become new goods and services. There is also evidence that dominant firms use market power to suppress wages, labor standards, and labor’s share of income generated by the firm.

Q.2. Mark Zandi, the chief economist for Moody’s Analytics, was highly critical of Democratic proposals like suspending the gas tax and pulling out pieces of BBB in order to combat inflation. He said “None of these ideas so far will help to a meaningful degree, and could do some harm because they could juice up demand at a time supply is constrained by the pandemic and worsen inflation.” Do you agree with Dr. Zandi’s assessment?

A.2. Elevated inflation has been a shared pandemic experience among virtually all advanced economies. One cause is strong consumer demand overall, and particularly strong demand for goods that are specifically experiencing disrupted supply chains and other supply constraints. Many of these supply constraints will likely ease as the pandemic situation itself improves. Other supply constraints reflect dynamics that pre-date the pandemic and will require long-term efforts to ease by expanding the productive capacity of the economy. The Bipartisan Infrastructure Law advances this by making critical long-term investments in areas like ports and transportation. Other pieces of the Administration’s agenda would further expand the U.S. economy’s capacity as well, such as through increasing women’s labor force participation through the provision of more accessible, affordable childcare and elder care. The Administration in the FY 2023 Budget proposed a combination of investments and offsets that would net reduce the deficit by $1 trillion over 10 years. These outcomes would help ease long-term inflationary pressure over time.

Q.3. In your testimony, you stated that “President Biden’s economic vision is predicated on the fact that the economic status quo has not worked for all Americans—for decades, it largely benefited those at the very top.” Does 40-year high inflation impact middle-class Americans or those at the very top more?

A.3. Inflation can have different impacts on households across the income distribution, partly because of differences in the mix of goods and services purchased, and partly because of differences in the share of their income that is absorbed by necessities such as food and shelter.
While there appear to be relatively small differences in the average price increases faced by middle-income households compared to upper-income households, price changes do not tell the entire story of differences in household well-being. The increase in prices should be compared to increases in wages and income that also occurred during 2021.

Researchers from University of California-Berkeley, as part of the Realtime Inequality Project, estimate that income from just labor income (wages and employee benefits) and returns on investments (excluding Government transfers and taxes) increased for adults across the income distribution, even after adjusting for inflation. Adults in the bottom 50 percent of the income distribution experienced the strongest growth, with their real annualized incomes rising by 10.1 percent between December 2020 and December 2021.

Real income growth was 2.5 percent for adults with income between the 50th and 90th percentile), and 6.3 percent for upper-income adults (those above the 90th percentile). This means that incomes grew at a rate that exceeded the historic price inflation in 2021, and to a greater extent for households with incomes up to the median.

An alternative measure is disposable income, which factors in taxes and Government benefits. Though the patterns are similar, when comparing annualized real disposable income in December 2021 to income in December 2020, growth will tend to be lower, in part because many COVID–19 relief programs sunset at some point during 2021. Growth in real disposable income was 5.2 percent for adults in the bottom 50 percent, and 2.6 percent for individuals above the 90th percentiles. And for middle-income individuals, between the 50th and 90th percentile, real disposable income actually decreased somewhat, by 1.1 percent, again primarily due to the roll-off of COVID–19 relief.

Q.4. The Committee for a Responsible Federal Budget recently released analysis, citing CBO data, that if interest rates rise by one percentage point higher than was anticipated in CBO’s July 2021 economic forecast, average annual interest costs will increase by $209 billion per year. That would bring total interest costs from now through 2031 to $7.3 trillion. What do you think the chances are of a 1 percent increase in net interest costs above the current baseline, and do you think that level of spending on interest is sustainable?

A.4. One of the best measures of the sustainability of Federal interest payments is the ratio of real net interest payments relative to GDP. Real net interest—the Federal Government’s annual interest payments after adjusting for inflation—directly measures the cost of servicing the Nation’s debt: the real resources that are going toward servicing the existing stock of debt, instead of investing in the future.

Real interest has averaged about 1 percent of the economy since 1980 and was about 2 percent in the 1990s. Since then, the effective real interest rate on Federal debt has fallen ten-fold, from over 4 percent to 0.4 percent in the 2010s. As a result, real interest has fallen—and real interest costs are expected to remain negative in 2022. The economic assumptions in the President’s FY 2023 Budget
anticipate that real interest rates will rise over the coming decade, using projections in line with private forecasters. Nevertheless, under these assumptions, the President’s policies would keep real interest at or below the historical average over the coming decade. This means that we have the capacity to make critical investments that expand the productive capacity of the economy while also keeping real interest cost burdens low by historical standards. The fact that the President’s policy agenda, as presented in the FY23 budget, includes measures to more than offset the costs of his proposals is also consistent with the budget’s interest rate forecast.

There are two-sided risks around any interest rate projection. The Administration’s projections reflect the path of rates under which, in our view, the uncertainty around economic risks is roughly balanced. Interest rates may come in higher than expected, for example if productivity growth proves stronger than anticipated. Rates may come in lower than expected due to, for example, unanticipated economic shocks. Over the last 20 years, Administrations of both parties, the Congressional Budget Office, and private sector forecasts have all, on average, overestimated interest rates in their projections. Put another way, actual interest rates have consistently come in below projections on average.

Q.5. The Joint Committee on Taxation found that the BBB bill would have added $750 billion to the debt in the first 5 years, yet the Administration has repeatedly insisted it would help bring down inflation. Can you explain to me how adding $750 billion to the debt in 5 years would reduce inflation? Or were you all suggesting that inflation would come down 5 years after the bill is enacted?

A.5. The President’s FY 2023 Budget proposes investments that boost economic growth, reduce cost pressures, and promote shared prosperity in a way that improves the fiscal outlook of the United States and reduces fiscal risks over the long term. Under the Budget’s policies, deficits would continue to decline from recent levels. Deficits would fall from 15 percent of GDP in 2020 to 5.8 percent of GDP this year and then decline further and remain below 5 percent of GDP through the 10-year window. Moreover, under the Budget’s policies, the medium-term economic burden of Federal debt would remain low.

At the same time, the United States does face fiscal challenges over the long term-driven largely by demographic pressures on health and retirement programs, an inequitable tax system, and rising health care costs. There is also uncertainty about the interest rate outlook. The Budget’s proposals prudently address these future challenges by reforming the tax system and more than paying for all new policies, reducing deficits over the long run. The Budget proposes capacity-enhancing legislation and commits to fully paying for it; it also proposes additional investment and revenue policy that lower deficits by $1 trillion over the next 10 years.

Overall, the Budget details an economically and fiscally responsible path forward-addressing the long-term fiscal challenges facing the Nation while making investments that produce stronger economic growth and broadly shared prosperity well into the future.
Q.6. Concerning, supply chain problems in the trucking industry, does the Biden administration believe that current solutions to alleviate employee shortages are able to fix long term industry shortages?

A.6. Current solutions, such as the Safe Driver Apprenticeship Pilot Program, can be helpful in the near term, but ensuring an adequate supply of drivers longer term may require a broader effort. Working conditions in trucking have deteriorated over the last several decades, and turnover is high compared to other industries. Drivers are often misclassified as self-employed and forced to bear costs personally that would normally be covered by an employer. The average driver is also about four years older than the average worker overall, which could suggest coming retirements and limited entry into the industry by young workers may be a concern going forward. Improving job quality is likely key to generating interest in the industry among workers and maintaining an adequate supply of skilled drivers. In addition, longer-term efforts can help make more efficient use of truckers’ time, thus reducing the number of truckers needed. For example, currently truckers can spend hours per day (often unpaid) waiting to load or unload their trucks. Public- and private-sector efforts to improve supply-chain functioning (for example, by paying truckers for waiting time) may help improve this situation.

Q.7. When do you believe inflation will stop rising? When do you forecast inflation will return to 2 percent?

A.7. In the very near-term, the Russian invasion of Ukraine will put upward pressure on consumer prices, especially food and energy. The Administration is taking a wide range of actions to mitigate these pressures, including the announcement of a historic 1 million barrel/day release on average from the Strategic Petroleum Reserve for the next 6 months. The duration of this pressure is uncertain and dependent on, above all, the status of the conflict and the closer realignment of supply and demand throughout many sectors of the economy.

Over the longer-run, the Federal Reserve, private forecasters, market-implied forwards, and household surveys all broadly expect inflationary pressures to ease over time. For example, the March 2022 Blue Chip Consensus Forecast of CPI inflation is that it will decline to 2.3 percent at an annualized rate in 2023 Q4, a pace historically consistent with the Federal Reserve’s 2 percent PCE target. This outlook largely reflects three factors: (1) the gradual un-snarling of supply chains as the pandemic comes under control and consumer demand renormalizes; (2) the shift of fiscal policy from tailwind to headwind as pandemic support fades; (3) the effects of shifts in monetary policy by the Federal Reserve, which remains the primary line of defense against inflation.

Q.8. In your testimony, you note that consumers have shifted their spending from services to goods. The implication is that the inflation we are seeing is being driven at least in part by above-trend demand for goods, and that if demand moves from goods to services, inflation will decrease. What gives you confidence that demand for goods will subside? Could it be possible that consumer be-
behavior has permanently shifted toward a higher demand for goods? If so, what implications does that have for supply chains?

A.8. The Administration is paying close attention to the evolution of consumer demand as the economy heals. The level of aggregate inflation-adjusted consumer spending, as measured by real personal consumption expenditures (PCE), is roughly back to its prepandemic trend. The composition of consumer spending remains different than prepandemic, however, with the share of PCE going to services being lower than before 2020 while the share to goods is higher. The lower services spending as of February 2022 is primarily being driven by lower spending in recreational services and health services, the latter of which is being in part driven by delays in elective surgeries and dental visits. We expect that many services categories will renormalize towards prepandemic consumption shares as services reopen and COVID–19 risk fades. Conversely, we expect demand for goods will also likely taper towards shares closer to those that prevailed before the pandemic. The big issue we are watching is whether aggregate demand exceeds aggregate supply moving forward.