The Federal Reserve's Semi-Annual Monetary Policy Report
House Financial Services Committee
June 21, 2023

Opening Statements

Chairman McHenry (R-NC) said that inflation remains persistent, and the Federal Reserve needs to continue to make additional rate increases. He said that despite pressure from the left, the Federal Reserve must remain committed to eliminating the 'stealth tax' for American workers and families. McHenry stated that Congress took the first step towards getting our fiscal house in order through the Fiscal Responsibility Act and Republicans are fighting for sensible spending reductions to combat inflation. McHenry noted how the Fed raised interest rates by 5 percentage points in a little over a year, which the country wasn't prepared for. In addition, he said that the commercial real estate (CRE) sector exposure facing financial institutions is raising anxiety. McHenry stated that Vice Chair Michael Barr is undergoing a holistic review of capital requirements, and if reports are true, he is pursuing a massive increase in capital standards for medium and large institutions which would limit banks' ability to lend out money. McHenry closed his statement by saying uncertainty is the last thing this country needs, and that Congress needs to reevaluate separating supervision and regulation at the Fed in order to gain better oversight in elected branches.

Ranking Member Waters (D-CA) stated the Federal Reserve made the right decision to pause interest rate hikes. She said in November, she cautioned against any approach to monetary policy that ignores the Fed's maximum employment mandate, and that while job growth is strong, it will not persist with more rate hikes. Waters said in the 10 months since the passage of the Inflation Reduction Act, inflation has been cut in half. Waters recommended that Congress needs to invest in fair and affordable housing. She added that 13 million jobs have been created and Democrats continuously want to keep this progress up, but Republicans aren't cooperating to bring down costs for the middle class. Turning to the recent bank failures, Waters stated that the Fed must act to correct supervisory and regulatory failures identified by the Committee's oversight. She said that the Committee Democrats recently introduced 11 bills, 3 bills of which were her own, in order to strengthen the safety of the banking system and hold executives accountable for their misdeeds. Waters closed her statement by saying the Senate Banking Committee is holding a markup on a bipartisan bill on bank executive accountability and urged McHenry to join in advancing sensible reforms to strengthen our nation's banking system.

Rep. Barr (R-KY) said that he expects proposals from the Fed's Vice Chair that could increase capital for financial institutions by as much as 20%. He said that our already well-capitalized banks withstood the pandemic and stress tests and now isn't the time to be engineering massive new regulatory changes or hindering regional banks which have already been under stress. He added that the one size fits all approach of the Fed needs proper vetting and transparency and asked for the Fed to commit to providing analysis done so far by the Fed on the Vice Chair's new proposals. In addition, Barr asked that the Chairman revisit section 1107(a)(1) of the Dodd Frank Act to observe that the Vice Chair is only authorized to develop recommendations for the Board and oversee supervision in regulation and that the law does not permit him to unilaterally create special regulations on his own.

Rep. Foster (D-IL) said that the Fed and Congress have done a reasonable job in recent crises. He said if the widely anticipated recession occurs, if it occurs at all, it will be a soft landing for our economy rather than a disastrous one for our economy. In the immediate term, Foster said we can look back with satisfaction on the historically low unemployment and 11 months of slowing inflation since the passage of the IRA. However, he recognized that the necessary monetary policies to combat inflation have not been without stress. Foster said that the Committee remains committed to alleviating the financial stress for everyday Americans to pay rent and get food on the table.

Witness Testimony

The Honorable Jerome H. Powell***, Chairman, Board of Governors of the Federal Reserve System,*** said that the Fed remains squarely focused on its dual mandate to promote maximum employment and stable prices, and then gave a brief overview of the current economic situation. He pointed to how the FOMC has raised rates since last year and how we have been seeing the effects of this policy tightening. Powell said that they remain committed to bringing inflation down to their 2% goal and keeping longer-term inflation expectations well anchored. He closed by saying that the banking system remains sound and resilient and that the recent banking stress has highlighted the importance of ensuring we have the appropriate rules and supervisory practices for banks the size of SVB.

Member Questions

Chairman McHenry (R-NC) mentioned that the FOMC paused rate increases and asked how the FOMC posture should be interpreted and if the FOMC will raise rates later in the year. Powell answered that the Fed decided to maintain the funds rate at this meeting, but at the same time participants submitted suggestions that there would be additional hikes. McHenry wanted a broader view on Vice Chair (VC) Barr performing a holistic review of bank capital and liquidity and potential changing stress tests. McHenry asked Powell how he interprets these proposals. Powell answered that there are a significant number of proposals that are in the works but haven't been brought to the Board, so he can’t get into specific details. He shared that the Board consists of six governors currently that evaluate and vote on these proposals. Powell said regulations should be transparent, consistent, and not too volatile. He added that the Fed wants banks to be resilient to shocks, to be able to lend in good and bad times. Powell acknowledged that there are tradeoffs with higher capital requirements and the country benefits from having banks of different sizes. McHenry closed by saying that the Committee expects to see a quantitative analysis of whatever the capital charge is going to be.

Ranking Member Waters (D-CA) said that Republicans proposed a stablecoin bill that would create over 56 state licensures and said that this proposal takes state preemption to a whole new level. She said that DC based coins could be sold nationwide, and NY regulators could do nothing to protect residents. Waters said that she has argued that states should be part of this process, but there should be a strong federal floor and a role for the Fed. She said that payment stablecoins are a new form of currency and asked Powell if it is important for the Fed to approve or decline any state licensed nonbank entity before it starts issuing payment stablecoins nationwide. Powell responded that the Fed appreciates that they have been able to offer their views on this, but they do see payment stablecoins as a form of money and the ultimate credibility behind money is the central bank so it would be appropriate to have a robust federal role in stablecoins. Waters then turned to diversity, the recent Juneteenth holiday, and the ongoing racial wealth gap. She pointed to her legislation that would require the Fed to carry out its duties in a way that addresses the racial wealth gap. Waters asked if Powell agreed with her that the Fed has a role to play in addressing racial and economic inequality. Powell said that they consider inequality in the economy as part of their decisions, but ultimately the Fed's ability to address those issues is fairly limited.

Rep. Hill (R-AR) said that the banking industry is well capitalized and capital levels have remained robust despite the pandemic. He pointed to Powell's previous comments on consensus regarding the proposed capital requirements and asked to what extent Powell and others have been engaged in Barr's holistic review. Powell said that they have been briefed by staff on the proposals, but they are still in motion. Hill asked if the Fed Board has reconstituted the membership of the Committee of Supervision and Regulation. Powell said yes, it includes VC Barr, Governors Jefferson and Bowman. Hill asked if the US GSIBs are better capitalized than their peers in Europe or Asia. Powell thought so, saying that they are at the top of their league. He said that our banks are strongly capitalized and competing well globally throughout the US. Hill thought the US capital standards made US banks stand out. He then asked about Basel III and asked if it would be better if European banks did a holistic review and got to the same level as American standards. Powell responded that they have agreed to follow the same standards. Hill asked if the FDIC and OCC supervisors are engaged with Vice Chair Barr in this review of capital adequacy. Powell thought so, yes. Hill said that the Biden Administration thinks the FSOB [sic] should focus on size instead of activities and asked if activities designation give FSOC more discretion or if size alone matters (QFR).

Rep. Velazquez (D-NY) pointed to Powell's comments on how the FOMC is focused on bringing inflation down and asked how he would respond to analysts saying that the Fed wants to trigger a recession. Powell said that we still have a strong labor market, and we are far from the inflation target of 2%. Velazquez asked how the FOMC takes into account the impact of rising interest rates on LMI communities when deciding rates. Powell said that inflation hits these communities harder, so it is to their benefit that we get inflation under control. Velazquez then turned to S. 2155 and the cultural shift of supervision at the Fed and asked if Powell was aware of this shift. Powell said he could not characterize it as a cultural shift, but they were trying to address regulatory burden. He added that he had no part in the Fed's report. Velazquez asked what proactive steps he took to meet with regulatory and supervisory staff. Powell said that they are looking carefully at the events and what they need to do for supervision.

Rep. Garbarino (R-NY) asked if the SVB failure was a result of a liquidity issue. Powell said yes, among other things. Garbarino asked the same of Signature and First Republic. Powell said yes, among other things. Garbarino asked if any of the failures were due to too low capital levels. Powell said that people were focusing on portfolio losses and that is what caused the run. Garbarino asked if increasing capital requirements would have stopped the banks from failing. Powell thought it would have helped. Garbarino asked how much more capital would have helped. Powell was not sure but thought liquidity management needed to be better. Garbarino asked if he stood by his statement that the banking system is strong. Powell said that he did. He asked if the Board has decided that there will be an increase in bank capital requirements. Powell said no, he just said that any change needs to be justified. He added that he would react to whatever the proposal is in the end. Garbarino asked if increasing capital requirements will further tighten credit. Powell said that it will be a while before the proposal is voted on since it is expected to be proposed this summer. Garbarino pointed to academic literature on the impact of increased capital requirements on lending and said that they are hearing from industry on this. He thought this would be a real disaster and asked Powell to brief the Committee on this before anything is finalized.

Rep. Cleaver (D-MO) said that in May, unemployment remained at 4% for the 16th consecutive month, and the job openings are declining, but so is joblessness. He asked if there was any expectation that this would occur. Powell said that there is an expectation that this will come down, and the demand for labor exceeds the supply of workers at the moment. Cleaver asked if there are sectors in the economy that we see a significant labor shortage. Powell said that this is a problem in many sectors, but businesses are gradually reporting that they are better able to get workers. Cleaver asked if we are also finding that people are still willing to buy homes and if we are going to get stuck with rates just going up. Powell said that the housing sector has actually flattened out and supply and demand are coming back into alignment. He said housing inflation will come down over the year.

Rep. Kim (R-CA) appreciated Powell's commitment to reducing inflation. She asked if it is appropriate for the Fed to increase capital requirements and what analysis the Fed has conducted to understand the impact on small businesses and marginal borrowers. Powell said that there is always a tradeoff, more capital means a strong banking system but less available credit. Kim said that there are estimates about CRE loans maturing in the next three years and said that the bulk of CRE loans are held by smaller banks. She asked if the Fed is thinking about policies that would provide more time for CRE loans to be refinanced and if an increase in capital requirements could reduce liquidity in the CRE loan market. Powell said that they are very focused on the CRE situation and supervisors are engaged with those banks that have a high concentration of CRE loans. Kim then asked what the procedures are for adopting the proposals that Barr is about to introduce. Powell said that the Board of Governors votes on regulatory proposals and there is a majority vote on these. Kim said that the California Governor identified that he had been in touch with the White House and Treasury before insuring deposits at SVB. She said that there are also reports that the Governor and his wife may have had depositor insurance at SVB. Kim asked if, when the SRE was recommended by Yellen, the Fed performed conflict of interest due diligence. Powell said no, there was an emergency situation and they carried out their duties.

Rep. Gonzalez (D-TX) pointed to the June FOMC Report and how research shows that increasing rates can take months to have their impact. He asked how tightening monetary policy has impacted the USD. Powell said that there is no agreement on how long it takes monetary policy to impact economic activity, and the Treasury is responsible for the dollar. Gonzalez pointed to the Fed's core mission, but he understood the calls for climate risk management. He said that we should be focused on the costs of reduced dependency on the USD. Gonzalez asked if monetary policy changes to impact climate change should be decided by Congress. Powell agreed, saying that the Fed has a narrow role in climate change, and this should be addressed by Congress.

Rep. Donalds (R-FL) said that it was good to hear from Democrats that the Fed should not be using tools to address climate change. He turned to bank capital requirements and asked Powell what his view is of Barr's desire to fully implement the Basel III capital standards. Powell said that Quarles was working on this, and it is an international capital standard we should complete, but with regard to the right level of capital, they are discussing this. Donalds pointed to how Europe is departing from capital requirements and asked if Powell is seeing the Europeans depart from these 'handshake' agreements. Powell said that he was not hearing this, but they would be following this. Donalds asked if increasing capital requirements for Tier III banks has been beneficial. Powell thought it had a net positive impact and the banks did well during the pandemic. Donalds asked if the Fed has a view of the concerns around community banking in the US. Powell said very much so, it is a focus for them, and they understand the importance of community banks. Donalds asked if federal regulatory policy has diminished community banking in the US. Powell thought it was a factor, but there are demographics and other factors as well. Donalds turned to the SEC's custody proposal, saying it would require banks to segregate client cash held in custody which would upend custody bank balance sheets and the bank custody model. He asked if the Fed is concerned about this proposed rule. (QFR)

Rep. Torres (D-NY) asked how serious the threat of de dollarization should be taken. Powell thought the dollar could remain the reserve currency given our institutions and the rule of law. Torres asked if the dollar is the cause of America's economic dominance or a consequence. Powell thought it was more a consequence. Torres asked if the dual mandates at the Fed were equal. Powell said that they are equally binding. Torres asked what it means in practice to have a 2% inflation target and if it means that the Fed will continue to raise rates even at the expense of maximum employment and financial stability. Powell said no, it does not mean that. He said that today's situation is unusual because we are achieving maximum employment, but not the inflation goal. Torres asked if the Fed has a financial stability mandate with respect to their role as bank regulator. Powell pointed to how the Fed is the lender of last resort and they try hard to use their financial stability tools for financial stability and monetary policy tools for monetary policy. Torres asked if the SVB failure showed tension between the Fed being a regulator versus an administrator of monetary policy. Powell said no, because interest rate risk is one of the most basic risks that they monitor for. He said management failed to hedge losses and hold appropriate liquidity. Torres asked if high interest rates were the new normal. Powell said that we will return to 2% inflation.

Rep. Flood (R-NE) wanted to discuss the efforts to unwind quantitative easing (QE). He said that the Fed's balance sheet has increased over the years, and Powell began to shrink it before the pandemic, but then the balance sheet increased again. Flood said that scale involved here is startling and he was concerned that the efforts to shed assets from the balance sheet have never been as quick to build it back up. He asked Powell if this is a concern of his and how we can avoid an environment where work on the balance sheet is undone with every economic shock. Powell said that this is a concern, and they are moving down to a level that will be appropriate. Flood asked if Powell had an optimal target for the size of the balance sheet. Powell said that the idea is that it is smaller than now, and reserves need to be abundant. Flood asked how quickly the Fed can unwind its balance sheet. Powell said that they do not sell assets, they allow them to mature and fall off. Flood reiterated his concern on this issue and said that the role of the Fed in the economy is not sustainable in the long term.

Rep. Horsford (D-NV) pointed to how it is more important than ever for the Fed to fulfill its dual mandate. He was pleased that the Fed decided to pause rate hikes last week and said that the strength of the labor market continues despite economic shocks. Horsford noted that the investments from IIJA and IRA are benefiting the US economy and the middle class. He said that he often hears about the cost of housing and asked Powell what he sees as the biggest upward pressure on housing services and what Congress can do. Powell thought Horsford was talking about longer run factors and said that there has long been a shortage of housing and housing materials. He pointed to low rates during COVID and how housing prices increased.

Rep. Lawler (R-NY) noted that Powell and others have acknowledged the strength of the banking system and capital requirements, but VC Barr still wants to increase capital requirements. He noted that this could result in a reduced GDP and then turned to the impact of increased interest rates on mortgages and loans. Lawler said that further decreasing the availability of credit would only worsen this crisis and asked Powell if high capital requirements impact bank lending and if they will have spillover effects on Americans. Powell said that there is a tradeoff between safety and soundness and availability of capital. Lawler asked where we are unsafe and unsound. Powell said that this is the question they will ask when the proposal comes forward and any increase will need to be justified. Lawler asked if regional banks and smaller banks will face the same requirements. Powell said that the requirements would be different. Lawler asked if Powell would provide the Committee with analysis before proposals come out. Powell said that the proposal will come to the Board for a vote, and they will share the analysis. Lawler asked if increased capital will jeopardize the Fed's efforts to address inflation. Powell said that there would be a 90 day comment period and then they would have to adjust the proposal and have long phase ins, so he did not think this played into the short term economic situation. Lawler asked if Powell agreed that inflation continues to hurt workers. Powell strongly agreed.

Rep. Nickel (D-NC) asked Powell what he could tell American people who are concerned about the economy in terms they understand. Powell said that the economy is strong and there is strong demand for workers and inflation is moving down gradually. He said that people are really concerned about inflation and the Fed has to address this by raising rates. Nickel joined with the others on comments regarding capital requirements and pointed to Powell's answer to a QFR on this issue. He said increasing borrowing costs hits his constituents hard and he asked how Powell will strike the right balance with capital requirements. Powell said that Nickel said it well, it's a balance of allowing banks to continue to lend.

Rep. Nunn (R-IA) pointed to the Fed's dual mandate and how inflation is still high. He asked Powell how the bank capital requirements that Barr is proposing will make his constituents face a more difficult credit environment. Powell said he did not think so, saying that this is further down the road and the banks his constituents deal with are likely smaller banks. Nunn said that Barr is engaging with small businesses on potential impacts of this bank capital review, and asked if this review is the right thing to be doing to cut inflation in half. Powell did not think the two were related, saying that the question of bank capital is not a key factor in inflation. Nunn pointed to a report from the FRB of Cleavland on how banks increased their capital before Basel III rules were in place and asked Powell if he agreed and if banks will begin to adjust when the proposal is released. Powell agreed and thought banks would adjust over time. Nunn pointed to the threshold for 1099-K being $600 now and asked if the Fed offering direct accounts would threaten American's financial privacy. Powell agreed that it would and said that he would not support direct accounts, saying that any US CBDC would have to use the banks as intermediaries.

Rep. Pettersen (D-CO) asked if there were countries we could compare the US to with regard to economic recovery and inflation. Powell thought the US has had the strongest economic recovery and said other jurisdictions are still facing inflation. Pettersen pointed to how rising debt leads to increased inflation and asked if this increased debt includes tax cuts. Powell said that there is a common factor driving inflation everywhere: the pandemic. Pettersen said that another frustration she has is immigration reform and asked if an increased labor supply would help supply chain and inflation issues. Powell said that we have seen a bounce back in labor participation and immigration and that is part of the reason that employers are finding the labor market to be better. Pettersen then asked if Powell saw lack of immigration reform contributing to rising costs in the long term. Powell said that he did not know about the long term, but there is a lot of demand for workers.

Rep. De La Cruz (R-TX) was concerned about VC Barr's focus on issues that were not material to the recent bank failures, pointing to how the Fed's Report on SVB focused on capital requirements. De La Cruz said that Governor Bowman echoed these concerns and said that those who will bear the brunt of the consequences of higher capital requirements will be those on the lower end of the spectrum. She asked Powell if he banks with a community bank. Powell said that he has, but not currently. She asked how increasing regulatory burdens would have consequences for these community banks. Powell said that the things they are looking at have to do with large banks, not community banks. De La Cruz hoped this was true.

Rep. Sherman (D-CA) said that years ago, there were $16 trillion in LIBOR instruments, but Congress acted, the Fed published regulations, and the problem with LIBOR is solved. He agreed that the issue of housing needs to be addressed and commented on de dollarization, saying that we need to deal with crypto. Sherman pointed to how Europe is also experiencing high inflation and said that our banks are well-capitalized because of our regulation. He asked if banks are well-capitalized if you value their assets at their real market value and if they are well capitalized if you assume that customers will not leave their deposits in the bank. Powell said that the capital requirements need to be taken as they are. Sherman said that capital requirements hide unpleasant facts. Powell said traditionally, a rising rate environment increases the value of the deposit franchise which offsets portfolio losses.

Rep. Ogles (R-TN) discussed QE and asked if it is fair to say that a failure to hedge caused some of the bank failures. Powell agreed. Ogles said that when the Fed prepared its previous Semiannual Report, none of those reports discussed how interest rate risk would impact government finances and asked if this should have been disclosed. Powell said that they manage maximum employment and price stability, they are not trying to attain some fiscal goal. Ogles asked how the blow to the Treasury impacts the Presidents and Congress' plans going forward. Powell said that it does not impact spending, it means that more borrowing will have to occur, and this may impact rates.

Rep. Lynch (D-MA) said that he heard some of Powell's comments about the Fed seeking a softening in the labor market. He understood the need for this, but when you look at the Black and Latino unemployment rates, they are higher. Lynch pointed to how there is federal funding for job programs, and it does not seem to be well-utilized. He asked if there are tools in the Fed's toolbox that the Fed could use here. Powell said that the Fed works as a convener in this area, not an agency that has authority to spend money. Lynch thought that there are deeper structural problems within our workforce.

Rep. Loudermilk (R-GA) wanted to talk about FedNow and said that FedNow is trying to address a problem that the private sector is already addressing. He pointed to how the RTP Network is already capable of instant settlement with a greater degree of connectivity than FedNow will have at its launch. Loudermilk said he was concerned that the Fed has an advantage over the private sector since it can clear transactions through Fed Master Accounts. Loudermilk asked why the Fed does not respond to industry demand by improving existing services instead of creating a new one that can compete with private industry. Powell said that smaller banks wanted an alternative to RTP, but this is not a reason to not work on the efficiency of other payments services. Loudermilk turned to protecting consumers from fraudulent transactions and how FedNow will have a way to report these. He asked Powell how he is going to handle this protection given that these payments will be in real time. Powell said that this is an issue with real time payments, but they think they can master this and fill this in. Loudermilk asked how they would resolve this. Powell said that they have built strong safeguards in, but he did not have answers on the technology. Loudermilk asked if the Fed will use FedNow for real time payments between banks in the system. Powell said yes, that's the purpose. Loudermilk discussed the issue of city governments competing with private providers of internet and asked if transactions between federal reserve banks be charged the same fees as private industry. Powell did not know but said that there are many instances of a government payment system working side by side with the private sector.

Rep. Vargas (D-CA) pointed to the inflation rate in the UK and asked Powell if the Biden Administration is the cause of inflation. Powell said that inflation is hurting people and people will be unpacking the cause of this inflation for a while. He said that the common factor is the pandemic, but there is also room for monetary and fiscal policy. Vargas then commented on how it would be a terrible idea for Congress to set the Federal Funds Rates and thought banks should be better regulated. He then asked what caused capital requirements to go up previously. Powell pointed to Dodd Frank and the Basel requirements. Vargas then commented on how we need to do something about climate, but understood it is not really in the Fed's mandate.

Rep. Lucas (R-OK) wanted to follow up on the issue of managing interest rate risk and asked Powell how hedging interest rate risk is an important risk management tool for banks and companies. Powell said that banks are encouraged by regulatory personnel and risk committees to manage this risk. Lucas turned to Basel III and said that these revisions to capital requirements do not exist in a vacuum. He pointed to changes at the SEC and how he asked Yellen if they were looking at the impact of market structure changes and increased capital requirements. Lucas asked if Powell was a part of these conversations. Powell said that he was not a part of these conversations, but he understood they were occurring. Lucas then asked if there are principles the Fed keeps in mind, so they do not give into political pressure on climate change. Powell said that it is not appropriate for the Fed to tell banks which legal businesses to lend to. He said that climate change needs to be addressed by elected people. Lucas then asked Powell to discuss shrinking the Fed's balance sheet. Powell explained how they shrink the balance sheet about a trillion dollars a month and in terms of the level of the balance sheet, he could follow up.

Rep. Beatty (D-OH) first addressed USD dominance and asked about the current status of USD dominance and risks to its dominance. Powell said that the USD is still the reserve currency and if we remain a country of the rule of law and open capital accounts etc., we can continue to be the world's reserve currency. Beatty then asked Powell to elaborate on whether there is anything that the Fed is doing that causes Congress to think that the Fed is perpetuating racial inequity. Powell said that they call out disparate economic characteristics of certain groups, but they have one FFR so they cannot really address distribution of it. He said that the most important thing they can do is improve price stability and labor market conditions.

Rep. Huizenga (R-MI) pointed to the percentage of ownership of bank holding companies allowed to be held by asset managers, saying that someone has to ensure that asset managers are complying with Fed opinion letters, but also the regulatory and statutory framework here. He asked if the Fed is taking any steps to monitor whether Vanguard, BlackRock and others are complying with this request from the Fed. Powell said that they are monitoring the situation. Huizenga said that those were opinion letters from the Fed and back in March, he asked about this. He asked what Division at the Fed monitors compliance with these opinion letters. Powell pointed to the General Counsel's office and said that there is no reason to believe they are not complying. Huizenga said that we do not know though, and agreed with Powell that there was a staff briefing on this. Huizenga pivoted to the SVB failure and asked if Powell appreciated that the Committee is conducting its own review. Powell said yes. Huizenga asked if they would commit to providing documents and who participated in the interviews on the Fed Report regarding SVB. Powell responded that he was not in the middle of this but could follow up. Huizenga asked if the Fed officials spoke with officials at other banks with regard to the cultural change in terms of supervision. Powell was not sure and did not want to speculate. Huizenga then asked why the decision to use SRE was made and if it lowers the bar for using it in the future. Powell said that this happened with no warning, and it was an emergency situation over the weekend.

Rep. Foster (D-IL) pointed to how wars have historically led to increased inflation and asked if the 2% target is a realistic target given the war in Ukraine. Powell said that 2% will remain their goal and it is a medium term goal, and he did not know that the war in Ukraine was contributing a lot to inflation. Foster asked how Powell views a 1% miss of employment versus a 1% miss of inflation. Powell said that there is a lot of research on the relative social costs of inflation and unemployment and there is a lot of judgment in this. Foster turned to how electronic runs on banks will have to inform bank capital and liquidity requirements and asked if there is anyone but the Fed that can provide a line of defense against runs. Powell thought there was a role for regulation and supervision, but the Fed is the lender of last resort.

Rep. Wagner (R-MO) wanted to ask about the FOMC's latest forecast on inflation, saying that it has been the same forecast for years and it has been wrong. She asked what data they are using to make this forecast. Powell said that they do not have private data and all forecasters made the mistake of thinking that supply chain issues would be resolved quicker. Wagner then asked Powell what conditions he sees that show we are going in the right direction with regard to inflation. Powell said that bringing inflation down will take time, but we need slower economic growth, which is happening, and we need supply chain bottlenecks to go away, and the mismatch between labor market supply and demand to diminish. Wagner asked when we might see consumer spending go down. Powell said that the broad service sector seems less focused on rate hikes and the cost of capital, and they think it will take some softening in labor market conditions. Wagner pointed to how CPI has gone up, but consumer spending remains high. She asked how Powell accounts for this difference when it comes to a rate hike pause. Powell said that they did not use the word pause, they agreed to maintain the rate and members of the FOMC think that it will be appropriate to raise rates this year. Wagner agreed this would be needed but was concerned about a recession.

Rep. Casten (D-IL) pointed to Powell’s comments on climate change and how the Fed released supervisory principles on climate. He asked if he can safely conclude that the Fed views climate as a risk to the global economy and the financial system. Powell agreed but said that the Fed’s role here is quite small. Casten said that he brought this up given Governor Waller’s recent comments on climate change. He asked if Waller was speaking in his personal capacity. Powell said that he does not comment on what his colleagues say. Casten said that what he said is opposed to Fed policy and thought this was concerning. Powell thought it was good that they have a diversity of perspectives at the Fed and the Fed’s role is to ensure that they manage risks. Casten then submitted a report to the record on climate from the ECB which argues that climate impacts inflation. He asked if the Fed would say it has tools to address this. Powell said that the Fed does not plan to change its thinking on inflation due to climate change but thought spending on a green transition could increase inflation eventually. Casten then noted the Fed Report on SVB and said that he is trying to figure out how they give the Fed the tools they need if climate is a forward looking risk. (QFR)

Rep. Barr (R-KY) pointed to the Fed’s consensus driven approach, saying it is important given the potential increases in capital requirements. He asked Powell to speak to the process underway and if VC Barr is acting unilaterally. Powell said that the VC has the responsibility to develop regulatory proposals for the Board, and the Board votes by majority vote to support them or not. He said that they have all been getting briefings on what is being considered. Barr asked how long the Board would debate or deliberate this and if it would be public. Powell said that there would be a meeting on this this summer. Barr said that it seems like the VC is writing personal reviews of bank failures and climate and given that this new scheme could raise capital requirements, he was concerned that this would only be a virtual vote and asked if this should be a more transparent board meeting. Powell said that it is more of a question of calendars and where people will be. Barr asked if the Fed would commit to providing economics analysis which justifies the capital changes. Powell was not sure they would have exactly what he’s looking for but said there will be a public record for the proposal. Barr asked if Powell would commit to proposing appropriately tailored regulatory requirements based on the complexity and size of the financial institution. Powell said that he would commit to supporting this and that we benefit from a diverse banking system. Barr pointed to a WSJ article on how Powell is not committed to fiscal responsibility like his predecessors and asked if he wanted to correct the record. Powell said that he did want to correct the record, and he has always said that the US is on an unsustainable fiscal path.

Rep. Gottheimer (D-NJ) understood that certain regional banks could not bid on First Republic and asked if Powell was aware of a regulator mandated pre-approval process that banks must complete to bid on firms going to receivership and if there's a notification process for informing banks that they can go through during this process. Powell said that this is within the jurisdiction of the FDIC, and he was not aware of any banks that could not bid, but he would not know. Gottheimer turned to CRE loans and asked how the Fed is looking at this and helping banks manage their risk here. Powell said that they are following this closely and it is a problem for banks with high concentrations of CRE loans. Gottheimer then asked if Powell is concerned about a credit crunch that will result in a rolling blackout across industries. Powell said that they are watching this. Gottheimer asked if Powell is watching nonbanks and the crunch that could happen on this side. Powell said that they are watching nonbanks, but they do not regulate or supervise them. Gottheimer asked if Powell had any recommendations on how Congress should be looking at the nonbanks. Powell said that there should be the same regulation where there is the same activity. Gottheimer asked what Powell's concerns are in terms of capital requirements. Powell said that a number of important proposals are coming, but our banks are strong and well-capitalized, and we need to see a justification for higher capital requirements. He added that we need to respect the diversity of institutions in this country.

Rep. Davidson (R-OH) pointed to how the Fed published a list of Master Accounts and asked if any account holders are non-FDIC insured entities. Powell did not know but would get back to him. Davidson said that crypto and digital assets have a market cap of $1 trillion and asked if Powell agreed that this asset class has staying power in the US economy. Powell agreed but said that the market cap has come down. Davidson pointed to the Committee's legislation on digital assets, saying that they would provide regulatory clarity. Davidson turned to the reverse repo market and asked about the implications it has on our economy. Powell said not much, saying it is like a mutual fund. Davidson asked if there is some conflict with higher reserve requirements and lending in the market. Powell did not believe so, saying that it is largely where money market funds are putting their money. Davidson said that the Fed had to intervene in this market in 2019 and asked if there was still cause for alarm. Powell said that this was about suddenly finding ourselves in reserve scarcity. He said that the reverse repo facility was at zero for a while. Davidson said that when you look at the requirements for capital and the alternative returns in the market, there are concerns that this capital cannot be deployed in the same place, and this has implications. He then turned to how the Fed should be focused on monetary policy, and he was concerned about the Fed's role in MBS and housing.

Rep. Garcia (D-TX) was happy that a Latino was nominated to the Federal Reserve Board. She then asked Powell for an update on the federal workforce in the Federal Reserve System. Powell said that the Fed has had a particular focus on generating more Hispanic contact and employees. Garcia said that affordable housing is also a concern of hers and asked if increased funding for housing and homelessness impact the inflation rate. Powell said that they may have a marginal impact on inflation. Garcia asked how long 2% inflation has been the target. Powell said about a quarter century. Garcia asked what would make them reconsider this target. Powell said that he has no plans to consider another target.

The Semiannual Monetary Policy Report to the Congress
Senate Banking Committee
June 22, 2023

Opening Statements

Chairman Brown (D-OH) said we need plentiful job opportunities and high wages, adding that working people pay the price for rising interest rates. Brown pointed to how inflation has been an excuse for corporations to raise prices and boost their profits. He said we have made progress in addressing inflation and despite the experts' predictions, job growth remains strong. He continued that wage growth outpaced inflation last month and noted how the Fed chose to pause interest rate hikes. Brown highlighted how Powell said increasing interest rates is not the only tool to fight inflation and that other actors, including Congress and corporate boardrooms have a role to play. Additionally, Brown said we have taken steps to enhance our supply chains and must continue to bring manufacturing back to the US to grow the economy from the middle out. Brown turned to bank failures and said executives put their profits and compensation above everyone else, adding that this is not a new thing. He then noted he and Ranking Member Scott's legislation to address this.

Ranking Member Scott (R-SC) said the bank failures shook confidence in our financial system, but that we have been able to weather the storm thanks to our healthy and well-managed institutions. Scott added that he has been disappointed with the decisions and words of VC Barr. Scott pointed to legislation that was passed out of the markup and said it not only encourages corporate governance, but it also looks at the supervisory failure that occurred. Scott said VC Barr could not answer if he would fire supervisors that contributed to the supervisory neglect that led to the failure of the banks. Scott then noted the three reasons for the bank failures: the actions of the bank executives, the supervisory failures, and the Biden inflationary economy. He questioned how Powell views VC Barr's recommendations and wanted to hear Powell's thoughts on how we move forward in a way that is in the best interest of Americans. Scott said he does not believe that raising capital standards is in the best interest of small businesses or people looking for loans.

Witness Testimony

The Honorable Jerome H. Powell, ***Chair, Board of Governors of the Federal Reserve System,*** said that the Fed remains squarely focused on its dual mandate to promote maximum employment and stable prices, and then gave a brief overview of the current economic situation. He pointed to how the FOMC has raised rates since last year and how we have been seeing the effects of this policy tightening. Powell said that they remain committed to bringing inflation down to their 2% goal and keeping longer-term inflation expectations well anchored. He said the economy is facing headwinds from tighter credit conditions for households and businesses, which he said are likely to weigh on economic activity, hiring, and inflation, adding that the extent of these effects is not yet known. He closed by saying that the banking system remains sound and resilient and that the recent banking stress has highlighted the importance of ensuring we have the appropriate rules and supervisory practices for banks the size of SVB.

<u>**Member Questions**</u>

Chairman Brown (D-OH) started by discussing corporate profiteering and noted how raising interest rates will not solve this problem. He asked why we would consider raising interest rates again, despite the impact it could have on workers and their families. Powell said the committee broadly feels that it will be appropriate to raise rates again if the economy performs as expected. He said their recent pause of rate hikes was to give them more time to make these decisions. Brown turned to job growth and asked how higher interest rates and job loss will disproportionately affect Black and Latino workers. Powell pointed to how there has been more demand for workers in the labor market than supply and that better aligning this is being done. He said working families are the ones that suffer from high inflation, and they are working to address this. Brown then asked what actions Powell is taking to prevent future bank failures and ensure banks address liquidity and other risks. Powell said he is committed to learning lessons from the recent bank failures and that there is a need to strengthen supervision and regulation of banks of that size. Brown asked if increasing capital requirements for banks with $100 billion or more in assets is a strategy the Fed plans to deploy. Powell said there has not been a final proposal and that he cannot comment on this yet. He added that capital increases are on the larger banks. Brown asked if Powell stood by his statement during the House hearing that he wants GSIBS to have high levels of capital and liquidity. Powell said he does and that they previously spent time increasing these standards and that he supported it then as well.

Ranking Member Scott (R-SC) stayed on the topic of capital requirements and asked how much is too much, saying we are going down a path where the only solution seems to be that we raise capital requirements. He added that this is limiting capital for those that create jobs. Powell said this is the right question and there is a tradeoff between making banks resilient and availability of capital. Scott said as they continue to fight inflation, the wage increase, combined with inflation, has led to less spending power, and asked if Powell agrees with this. Powell agreed. Scott went on to say that the average American struggles to make ends meet because of inflation and pointed to how the printing and spending of money has fueled inflation. He asked how Powell talks to policymakers about the importance of responsible spending. Powell said the US federal budget is on an unsustainable path and this needs to be addressed sooner than later. Scott said at some point it is Powell's responsibility to talk about this. Scott turned to SVB's bond portfolio and how it carried water and asked Powell to describe the Fed's losses in this area. Powell said they are experiencing paper losses that are not affecting their ability to conduct monetary policy.

Sen. Menendez (D-NJ) pointed to inflation and the progress that has been made to decrease it. He asked Powell to expand on his previous statement that the Fed's rate hikes have not done much to reduce inflation. Powell said headline inflation has come down, but this is largely because of energy and commodity prices coming down, adding that this is not principally an effect of monetary policy. He added that they are not seeing much progress in the service sector and that we have a long way to go to reduce inflation. Menendez asked if the lag period for rate hikes has lengthened or are rate hikes becoming less effective. Powell said he does not believe the rate hikes are becoming less effective and that these hikes take longer to take effect in certain sectors. He added that monetary policy had started tightening before the first-rate hike. Menendez turned to commercial mortgages and asked if Powell thinks we will see banks fail as these mortgages come due. Powell said it comes down to what banks have concentration in certain real estate, adding that this is not seen in the larger banks but is seen in some of the smaller banks. He said they have identified those banks and work with them to address these issues. Menendez called this a ticking time bomb and asked how we can ensure that the losses in commercial real estate do not drain the assets from smaller banks and create further consolidation in the banking sector. Powell said they are being proactive about reaching out to these banks to help resolve these issues.

Sen. Kennedy (R-LA) asked what impact increasing spending by 10% would have on inflation. Powell said it would probably have a small effect on inflation and would increase demand. Kennedy asked if Congress passes a budget that reduces spending, what impact would that have on inflation. Powell said you would be slowing the economy and there would be less demand and less economic activity. Kennedy asked if more stimulus by federal spending is inflationary. Powell said there is an interaction here. Kennedy asked if less spending would be disinflationary. Powell said yes. Kennedy turned to Basel III requirements and asked if the Fed is going to raise capital requirements to 20%. Powell said no, it would be to raise it by 20%. Kennedy asked if this will be for banks with $100 billion in assets or more. Powell said these requirements will be skewed to the GSIBs and none of the requirements should affect banks under $100 billion.

Sen. Smith (D-MN) said she does not think discretionary spending is the problem when it comes to our budget. She said the problem is with revenues, which have decreased because of Trump and Bush tax cuts. She noted how wages are growing and how real wage growth has been impacted by inflation. She asked if real wage growth has increased in the past couple of months. Powell said recently wages are moving up faster than inflation. Smith said the investments we have made in domestic manufacturing have played a role here. She then asked if Powell sees a path for inflation slowing without us seeing job loss and harm to working class families. Powell said the labor market is strong and is driving the economy, adding that he thinks there is a path to this. He said that the unemployment rate would likely come up some but that the loosening would come in other ways as well. Powell said they are trying to get inflation under control while doing as little damage to the labor market as they can.

Sen. Tillis (R-NC) started by talking about Basel III requirements and asked how much time the voting principals will have to review and vet this proposal. Powell said he will make sure there is enough time to review the final proposal. Tillis asked if it would be appropriate to provide Congress with a roadmap as the Fed is going through its review process of the requirements. Powell said he thinks that will happen because VC Barr will be giving public remarks before the meeting. Tillis asked Powell to explain VC Barr's comments about how there is a need to have a safe and sound banking system but also a need to inject more capital in the system. Powell said further capital increases will need to be justified and the tradeoffs of this must be considered. Tillis turned to the failure of SVB and asked who in the Fed would give him an answer on what the breakdowns were in the supervisory functions of SVB, who those people were, and what is the status of their job. Powell said there were supervisory failures and that they need to learn lessons and implement changes. He added that it is not just about supervision and pointed to the speed at which SVB collapsed, saying that they need to fix liquidity regulation. He added that in public service, people do not get fired like they do in other sectors. He said we need to be able to be nimbler when it is appropriate.

Sen. Van Hollen (D-MD) said it has been his observation that real wages are up for lower wage workers and asked him to speak to this. Powell said this is correct. Van Hollen turned to labor force participation and asked if immigration has been an important part of this. Powell said participation moved up more than they expected, and that immigration has seen a resurgence since the end of the pandemic, which has contributed to more people being in the workforce. Van Hollen said he supports the Fed's decision to pause interest rate hikes and asked to what extent the failure of SVB and to what extent the stability of the banking sector impact how they view interest rates moving forward. Powell said if there is a shock in the banking system then it results in lower lending, adding that there might be more tightening than there was initially expected to be. He continued that they acted very quickly in the beginning and have been slowing down since last December and are getting close to where they want to be. He said he wants to pace hikes, so they make good decisions.

Sen. Vance (R-OH) said SVB was too exposed to interest rate risk, and this is largely why they collapsed. He asked if SVB was exposed to higher capital requirements, is it plausible that they would have satisfied these requirements by buying more long-term treasuries. Powell said it does not matter what the assets are, just that they meet the requirements. Vance then asked if they had bought more long-term treasuries, would their balance sheet have been in better or worse shape. Powell said they would have a larger loss. Vance said the point he is making is that capital requirements are not a panacea to the type of bank run we saw with SVB. He asked if higher capital requirements would have made the bank run worse. Powell said there is a lot to unpack here but noted that they were experiencing a capital issue. Vance then asked if the Fed has a standardized approach to understand the capital cost of each tier of the banking system. Powell said they believe they are lucky to have such a diverse group of institutions and that they try hard to not take a one-size-fits all approach. Vance asked what the capital cost is for the big banks versus the smaller banks. Powell was going to submit his answer in writing.

Sen. Fetterman (D-PA) said we need to have an economy that works for working families. Fetterman asked how they balance driving down inflation with not hurting working class people. Powell agreed that it is a sort of paradox and that the tool they use cools off demand, which affects the working class. Powell said restoring price stability will yield benefits for everyone. Fetterman turned to the causes of inflation, saying how executives and shareholders have raked in record profits at the expense of regular Americans. Fetterman asked if it is fair to say big business has raised prices more than needed. Powell said during the pandemic, demand played a large role. He added that as the supply chains have improved and manufacturing has ramped up, corporate profit margins have gone down. Fetterman asked if price gouging was at play. Powell said the collision between supply and demand played a large role here.

Sen. Daines (R-MT) said inflation remains a daily issue for many Americans. He urged Powell and the Fed to rein in inflation. He said inflation is not the only crisis the Fed has had to deal with. He said as bank regulators were more focused on climate change than regulating banks under their supervision, several coastal banks collapsed. Daines pointed to how Democrats were calling for increased regulations immediately, disregarding the effects these would have on smaller banks across the country. Daines noted Powell's comment that banks are well-capitalized and asked if this is the case, then why are we considering raising capital requirements. Powell said for community banks and banks under $100 billion in assets, they are not involved in these standards. Powell added that Daines asked the right question of whether more capital is the answer and he said they would be addressing this. Daines asked if the impact this could have on small businesses be considered before finalizing the proposal. Powell said yes and that this is a judgment call and deciding how high to go is difficult. Daines asked if Powell is committed to sparing community banks from the changes the Fed may make on capital requirements. Powell said the proposal does not affect these banks and he would have questions about why they would. Daines went back to inflation and asked if he could expand on his outlook for the rest of the year and speak to his commitment to bring inflation back to the 2% target. Powell said they expect modest growth moving forward and expect the labor market to gradually cool off. He said he thinks there will be another one to two rate hikes and that the data will tell them what to do.

Sen. Hagerty (R-TN) started by discussing Basel III requirements and said they would have far-reaching consequences. He noted the potential for a perfect storm between more capital requirements and a need for more lending and how these requirements could jeopardize this. Hagerty asked how this process would be managed at the Fed. Powell said he will ensure that Governors have enough time to review the proposal, adding that staff have been briefing them for the past few weeks. He added that the proposal is still evolving. Hagerty turned to bank mergers and asked if we would be better off letting a bank be acquired by another bank or entered into receivership. Powell said the former. Hagerty said the administration has created such a negative environment for consolidation and asked Powell if we should allow more banks to merge. Powell said there was every chance given to have SVB be sold, but it could not happen. Hagerty then pointed to his bill, the Depositor Protection Act, which would provide a green light to well-capitalized banks to merge with troubled institutions without having regulatory interference. Hagerty closed by asking Powell to discuss the risks of the reverse purchase facility, which was created with the intention to create a floor for interest rates. Powell said this facility has shrunk in size and that depositors are moving their money from this facility, which is what they would have hoped to see.

Sen. Warner (D-VA) touched on Hagerty's point on how raising capital requirements could create a perfect storm between requiring more capital and having a need for more lending. Warner said he understands that capital requirements will phase in but that the clashing of these variables could cause a stressful situation. He asked if Powell had anything to add here. Powell said they are considering this and noted that there is still a high level of cash reserves in the system. Warner turned to SVB and questioned what regulatory framework could address an internet-based run that occurs at the speed at which the run on SVB did. He continued that SEC Chair Gensler put out commentary saying we need to look at transparency regarding short selling and that we have found in the past that short selling borrowers do not prevent some of this. Warner then questioned how to address a framework in the era of internet-driven runs and asked Powell to address this. Powell said it is critical that people can use the discount window and bank term funding facility and that they are not marked down for doing so. He said that it is good that banks have used this recently and that he would like to think the stigma of using these facilities has improved.

Sen. Cortez Masto (D-NV) asked if the credit tightening we see from regional banks is acting as an effective substitute to additional interest rate hikes. Powell said it may be and that they have been looking for this. Cortez Masto asked what the risks are if the FOMC continues to raise interest rates, despite these rate increases resulting in credit tightening and higher housing costs. Powell said they have slowed down in their hiking of rates and are trying to avoid the mistake of going too far. Cortez Masto turned to employment and asked Powell to explain how the Fed considers states like Nevada, with high unemployment and high job growth, as they look to implement the dual mandate. Powell said they are aware of different labor markets but only look at the national level in their work. Cortez Masto pointed to how the labor market in the service industry has been a drag and asked if this is something they consider and what they are seeing here. Powell said they are seeing labor shortages in the service industry and that there are a number of job openings compared to the number of unemployed people. Cortez Masto asked Powell to talk about the housing data. Powell said mortgage rates are sensitive to their policies and housing construction and housing sales are sensitive to mortgage rates, so they saw housing activity shrink. Powell added that the market is now improving.

Sen. Britt (R-AL) started by acknowledging the strength of the US banking sector and highlighted how banking regulators' inaction played a role in the bank failures. She added that the risks taken within these banks are not characteristic of the broader banking sector and that most banks have proven to be resilient. Britt then expressed concerns about the decline in the number of community banks and said we must ensure their presence in communities remains strong. She asked Powell that as the Fed considers changes to the current capital requirements, how are they evaluating the impact this could have on community banks. Powell said community banks would not be affected by the changes to the capital requirements. Britt asked what the Fed is doing to support community banks. Powell said there are secular forces that are driving people away from these but acknowledged that the decline in community banks is not a good thing for the country. He said that the Fed does not want to be part of the problem and that an example would be to not implement a one-size-fits-all model. Britt asked what community banks can do that other banks cannot. Powell said they provide relationship lending and do things in this area better. Britt asked him to commit to keeping community banks in mind as they move forward. Powell committed to this.

Sen. Tester (D-MT) said he hears about inflation, the high cost of housing, and cost of childcare. He asked Powell if they think about things like housing and childcare and if they have any tools to address them. Powell said they enforce some of the consumer protection laws so they can have an effect as it relates to fair lending, but there are not much their tools can do to address supply of affordable housing. Tester turned to interest rates and asked what the key determinant would be in their decision to continue to raise rates. Powell said if they see continued modest growth, cooling of the labor market, and gradual better alignment of supply and demand and inflation begins to improve, they are at the level of rate hikes that will be necessary. Tester asked what factors they would look for that would warrant a lowering of interest rates. Powell said they do not see that happening any time soon and the test would be that they are confident that inflation is moving back to their 2% goal. Tester turned to regulation and how S. 2155 had a sentence in it about tailoring. Tester asked Powell to expand on Barr's thoughts regarding regulation and its impact on community banks. Powell said regulation should be appropriate for an institution's size and risk and that it is not a one size fits all scenario.

Sen. Cramer (R-ND) started by saying that the Basel III requirements are an attempt to solve a liquidity problem with a capital fix. He said he does not understand how the Fed would want to raise capital requirements when we are facing a credit crunch and asked Powell if this makes sense. Powell said this is always the tradeoff and that there needs to be a balance here. He added that the big capital increases are for the larger institutions. Cramer understood but asked what the motivation for increasing capital requirements is. Powell said they spent many years raising capital liquidity standards for the largest institutions and that he supported that banks have competed successfully after raising those standards. He added that the increases will need to be justified. Cramer then asked for Powell's thoughts on addressing a framework to account for the speed at which bank runs can happen and the digital world of money we are living in. Powell said the thing that is clear is that existing liquidity requirements did not account for a bank run that could occur this quickly, adding that there is a need for regulatory response in this space. He added that supervision could have been more forward-leaning here and that they were going to address this as well.

Sen. Warren (D-MA) started by discussing how Powell lobbied for weaker banking rules following the passage of Dodd Frank. Warren said in 2018, Powell supported Congress' weakening of these rules and hacked away at one rule after another. Warren said the FDIC has been forced to rescue more giant failed banks under his watch than any other Fed Chair in history. She asked if Powell agrees with VC Barr's conclusion that the Fed bears a big share of the responsibility for the failure of SVB. Powell said their supervision was shown to have not been assertive enough and it was a fair conclusion. Warren said his actions and words played a role in the weakening of banking rules. She then asked if he takes responsibility for his role in the bank failures. He said they learned some lessons from these failures and the main responsibility he takes is to learn the right lessons from this and address them to prevent future similar scenarios. Warren pointed to the previous hearing with the failed bank CEOs and how they testified that they would not give back any bonuses they received. She continued that now we have Fed Chair Powell who led the charge to weaken bank regulations and who oversaw the supervisors who failed miserably, noting that there is still no accountability. She said the banking system is broken and the people who did not cause the mess are forced to clean it up.

Chairman Brown (D-OH) said we should trade American jobs for corporate profits and should not sacrifice a safe and resilient banking system for easy money for the biggest banks. He said we can fight inflation and protect worker gains by investing in growth at home.

Ranking Member Scott (R-SC) addressed the comment that tax cuts led to the challenge we are facing with our debt and said that revenue in 2022 was more than 30% higher than in 2017. He said we need to recognize that if spending exceeds revenue, then we are going to have a deficit.