

United States House of Representatives  
Committee on Financial Services  
2129 Rayburn House Office Building  
Washington, D.C. 20515

February 25, 2022

## Memorandum

**To:** Members, Committee on Financial Services  
**From:** FSC Majority Staff  
**Subject:** March 2, 2022, Full Committee Hearing entitled, “Monetary Policy and the State of the Economy”

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The full Committee will hold a hybrid hearing entitled, “Monetary Policy and the State of the Economy” on Wednesday, March 2, 2022 at 10:00 a.m. Eastern Time in room 2128 of the Rayburn House Office Building and on Cisco Webex. The Honorable Jerome H. Powell, Chair Pro Tempore, Board of Governors of the Federal Reserve System, will be the sole witness.

### Purpose and Background

The Federal Reserve Act directs the Chairman of the Board of Governors (Board) of the Federal Reserve System (Federal Reserve or Fed) to testify before the House Committee on Financial Services and the Senate Committee on Banking, Housing, and Urban Affairs twice a year on how the Board handles monetary policy and its observations on economic developments.<sup>1</sup> Each appearance requires the Board to supply the committees with a written report known as the Monetary Policy Report.<sup>2</sup> The Federal Reserve System consists of a 7-member Board of Governors, as well as 12 Reserve Banks located in various regions around the country. The Fed’s functions include conducting monetary policy, promoting financial stability, supervising and regulating certain financial institutions, and fostering payments and settlements.<sup>3</sup> The Board has seven Governors, including a Chair, a Vice Chair, and a Vice Chair for Supervision. Monetary policy decisions are made by the Federal Open Market Committee (FOMC), which is comprised of the Board, the president of the Federal Reserve Bank of New York, and an annual rotation of four of the remaining Reserve Bank presidents.<sup>4</sup>

In February 2022, Chair Powell’s first term as Chair expired, and he has been designated Chair pro tempore pending Senate confirmation to the second term to which President Biden has nominated him.<sup>5</sup> In addition to nominating Chair Powell for another term as Chair, President Biden has made four other Board nominations: Governor Lael Brainard has been nominated to serve as Vice Chair; Sarah Bloom Raskin has been nominated to serve on the Board as Vice Chair for Supervision; and Lisa Cook and Philip Jefferson have been nominated to vacancies on the Board.<sup>6</sup> All five nominees are awaiting Senate confirmation. If all five are confirmed, the Board will have more racial and gender diversity than ever before,<sup>7</sup> and it will be the first time that the Board has had all seven governors confirmed since August 2013.<sup>8</sup>

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<sup>1</sup> Section 2B of the [Federal Reserve Act](#) (12 USC 225b).

<sup>2</sup> *Id.*

<sup>3</sup> See Fed, [About the Fed](#) (accessed Feb. 16, 2022).

<sup>4</sup> For more background on the Federal Reserve’s structure and its conduct of monetary policy, see the Financial Services Committee [memo](#) prepared for the hearing entitled “Monetary Policy and the State of the Economy” (Feb. 11, 2020). Also see Congressional Research Service (CRS), [Introduction to Financial Services: The Federal Reserve](#) (Jan. 13, 2022), [The Federal Reserve’s Response to COVID-19: Policy Issues](#) (Feb. 8, 2021), and [Monetary Policy and the Federal Reserve: Current Policy and Conditions](#) (Feb. 6, 2020)

<sup>5</sup> Federal Reserve Board, [Federal Reserve Board names Jerome H. Powell as Chair pro tempore](#), (Feb. 4, 2022).

<sup>6</sup> New York Times, [The White House nominates a diverse slate of candidates to the Fed Board](#), (Jan. 14, 2022).

<sup>7</sup> *Id.*

<sup>8</sup> Conti-Brown, [Restoring the promise of Federal Reserve governance](#), (Jan. 2020).

In February 2022, the Boston Federal Reserve Bank board announced that University of Michigan provost Susan Collins will become the new Boston Fed president effective July 1.<sup>9</sup> The board of the Dallas Federal Reserve Bank has initiated its search for a new president, but it has not yet announced a decision.<sup>10</sup> For years, gender, racial, and occupational diversity among the directors of the 12 Federal Reserve Banks has been lacking, though there has been gradual improvement in recent years.<sup>11</sup> There are very few people of color among the top economic research staff across the Federal Reserve System.<sup>12</sup> According to the 2020 Office of Minority and Women Inclusion report, the Board's total workforce in 2020 was 43 percent minority and 43 percent female.<sup>13</sup> Susan Collins will become the first Black woman to serve as a Reserve Bank president in July, and Lisa Cook will be the first Black woman to serve as a Federal Reserve governor if confirmed. To date, there has never been a Latinx FOMC participant in the Fed's history.

## Overall Economic Outlook, Inflation, and Monetary Policy

Economic conditions and labor market recovery from the COVID-19 pandemic have shown remarkable strength over the past year. In January 2022, the Bureau of Labor Statistics (BLS) jobs report showed 467,000 jobs added to the economy, bringing the total number of new jobs added since January 2021 above 7 million.<sup>14</sup> Wages and salaries for workers grew by 4.5% in 2021, the highest level since 1983.<sup>15</sup> Despite a robust pace of economic recovery and job growth, key challenges remain. The Black unemployment rate remains elevated and nearly double that of the White unemployment rate, falling below 7% in January after climbing slightly in December.<sup>16</sup> According to Chair Powell, labor force participation “remains subdued,” which he attributed partially to “caregiving needs and ongoing concerns about the virus.”<sup>17</sup>

Throughout 2021, inflation readings came in higher than the Fed had projected. Largely in response to this inflationary trend, Chair Powell announced plans to accelerate the Fed's “taper” of large-scale asset purchases (LSAPs) of Treasuries and mortgage-backed securities and bring LSAPs to an end in early March.<sup>18</sup> It is now expected that the FOMC will begin raising interest rates at the conclusion of its March meeting. A couple of voting FOMC participants have called for a steeper path of monetary policy tightening this year; Kansas City Federal Reserve President Esther George did not rule out the possibility of a 50 basis-point rate hike at the FOMC's March meeting,<sup>19</sup> while St. Louis Federal Reserve President James Bullard has explicitly called for a 50-point hike and said he thinks the federal funds rate should be at 1 percent by July.<sup>20</sup> The most recent summary of economic projections available showed that the median FOMC participant was expecting three interest rate increases in 2022 as of December 2021.<sup>21</sup> Many market participants expect a steeper pathway, however. Goldman Sachs now projects at least four interest rate increases this year,<sup>22</sup> and the CME FedWatch tool projects six rate hikes.<sup>23</sup>

Adding to the volatile conditions and major economic uncertainty that has characterized the economy throughout the COVID-19 pandemic is high geopolitical instability. Minutes from the January FOMC meeting contain numerous references to geopolitical risks, which FOMC participants warned

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<sup>9</sup> Federal Reserve Bank of Boston, [Federal Reserve Bank of Boston names its next president and Chief Executive Officer](#), (Feb. 9, 2022).

<sup>10</sup> Federal Reserve Bank of Dallas, [Dallas Fed Launches Search for President and CEO; Search Firm hired](#), (Nov. 17, 2021).

<sup>11</sup> Brookings, [Diversity within the Federal Reserve System](#), (Apr. 13, 2021).

<sup>12</sup> New York Times, [Why are there so few Black economists at the Fed?](#), (Feb. 2, 2021).

<sup>13</sup> Board of Governors of the Federal Reserves, [Report to the Congress on the Office of Minority and Women Inclusion](#), (March 2021).

<sup>14</sup> Bureau of Labor Statistics, [The Employment Situation- January 2022](#), (Feb. 4, 2022).

<sup>15</sup> Politico, [The Fed is setting out to kill inflation. Brace for collateral damage](#), (Feb. 16, 2022).

<sup>16</sup> CNBC, [Black unemployment rate dips, labor force participation rises in January](#), (Feb. 4, 2022).

<sup>17</sup> Federal Open Market Committee, [Transcript of Chair Powell's press conference](#), (Jan. 26, 2022).

<sup>18</sup> Federal Open Market Committee, [Transcript of Chair Powell's press conference](#), (Jan. 26, 2022).

<sup>19</sup> Wall Street Journal, [WSJ Interview with Kansas City Fed President Esther George](#), (Feb. 14, 2022).

<sup>20</sup> Bloomberg, [Fed's James Bullard Backs Supersized Hikes, sees full point by July](#), (Feb. 10, 2022).

<sup>21</sup> FOMC, [Summary of Economic Projections](#), (Dec. 15, 2021).

<sup>22</sup> CNBC, [Inflation surge could push the Fed into more than four rate hikes this year. Goldman says](#), (Jan. 23, 2022).

<sup>23</sup> Politico, [The Fed is setting out to kill inflation. Brace for collateral damage](#), (Feb. 16, 2022).

could exacerbate inflation. According to the minutes, participants discussed “geopolitical turmoil that could cause increases in global energy prices or exacerbate global supply shortages.”<sup>24</sup> Conflict between Russia and Ukraine has the potential for major economic ramifications. Although the United States does not depend heavily on imports from Russia, Russia and Ukraine’s statuses as major exporters of gas, wheat, and corn in Europe is expected to raise oil and food prices globally.<sup>25</sup> Analysts further noted the risk of cyberattacks from Russia causing economic disruption.<sup>26</sup>

In testimony before this Committee in December of last year, Chair Powell acknowledged that inflation was more “persistent” in 2021 than many forecasters anticipated.<sup>27</sup> Powell also stated that the Fed would no longer refer to inflation as “transitory” going forward, explaining that the term had caused confusion.<sup>28</sup> While many interpreted the term to mean that the Fed was confident that higher inflation would only last a few months, the Fed understood the term to mean unlikely to lead to a “persistent, long-run string of high inflation.”<sup>29</sup> The Fed continues to emphasize supply chain bottlenecks and pandemic factors as important causes of inflation. “Drivers of higher inflation have been predominantly connected to the dislocations caused by the pandemic,” Powell recently noted, although he cautioned that “price increases have now spread to a broader range of goods and services.”<sup>30</sup> Powell has said that forecasters at the Fed “continue to expect inflation to decline over the course of the year.”<sup>31</sup>

With interest rates expected to rise more quickly this year, there are concerns about the continued pace of economic growth and how the Fed’s actions will affect inflation and economic growth. “History tells us with Fed policy that abrupt and aggressive action can actually have a destabilizing effect on the very growth and price stability we’re trying to achieve,” San Francisco Fed President Mary Daly recently told an interviewer on *CBS Face the Nation*.<sup>32</sup> In January 2022, Chair Powell expressed his view that “there’s quite a bit of room to raise interest rates without threatening the labor market.”<sup>33</sup> During his Senate Banking Committee confirmation hearing, however, Powell noted that many inflationary pressures relate back to supply side challenges and said “[the Fed] really can’t directly affect supply side conditions.”<sup>34</sup>

### **Federal Reserve Bank Governance and Trading Activity by Fed Officials**

In September 2021, the *Wall Street Journal* reported that Dallas Federal Reserve President Robert Kaplan made millions of dollars in individual stock trades and Boston Federal Reserve President Eric Rosengren made major real estate investments throughout 2020, even as the Fed undertook unprecedented interventions in financial markets.<sup>35</sup> Later that month, Kaplan and Rosengren both announced their resignations.<sup>36</sup> Chair Powell and former Vice Chair Richard Clarida also received scrutiny of their trading activity during the pandemic. Powell made investments in several municipal bond funds in 2020,<sup>37</sup> but has explained that his investments in municipal bonds pre-dated the pandemic, and were made because prior to the Fed’s creation of the municipal liquidity facility, “the lore was that the Fed would never buy

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<sup>24</sup> FOMC, [Minutes of the Federal Open Market Committee, January 25-26, 2022](#), (Jan. 26, 2022).

<sup>25</sup> New York Times, [Russia is Sowing Conflict in Ukraine. What does that mean for the US economy?](#), (Feb. 23, 2022).

<sup>26</sup> *Id.*

<sup>27</sup> House Financial Services Committee, [Oversight of the Treasury and Federal Reserve’s Pandemic Response](#), (Dec. 1, 2021).

<sup>28</sup> *Id.*

<sup>29</sup> *Id.*

<sup>30</sup> FOMC, [Transcript of Chair Powell’s press conference](#), (Jan. 26, 2022).

<sup>31</sup> FOMC, [Transcript of Chair Powell’s press conference](#), (Jan. 26, 2022).

<sup>32</sup> Wall Street Journal, [James Bullard Says Fed Needs to Front-load Rate Raises Amid Inflation Surge](#), (Feb. 14, 2022).

<sup>33</sup> FOMC, [Transcript of Chair Powell’s press conference](#), (Jan. 26, 2022).

<sup>34</sup> Senate Banking Committee, [Nomination of Jerome H. Powell](#), (Jan. 11, 2022). For more background on inflation, see CRS, [Introduction to U.S. Economy: Inflation](#) (Nov. 22, 2021), [Inflation in the Wake of COVID-19](#) (Sep. 1, 2021); and [Breaking Down the U.S. Inflation Rate](#) (Dec. 21, 2021).

<sup>35</sup> Wall Street Journal, [Fed Leaders Eric Rosengren, Robert Kaplan to Resign Following Controversy](#), (Sept. 27, 2021).

<sup>36</sup> *Id.*

<sup>37</sup> Office of Government Ethics, [Jerome Powell Public Financial Disclosure Financial Report](#), 2021

municipal securities.”<sup>38</sup> Clarida claimed his early 2020 trades constituted a “portfolio rebalancing,” although subsequent reporting from the *New York Times* showed that he sold a stock on February 24 during major financial market turbulence, then bought it back a few days later after Powell had committed to supporting the economy.<sup>39</sup>

In October 2021, the Fed proposed new rules to prohibit trading of individual stocks by senior FOMC officials and staff, and to require 45 days of notice for any trading of securities, such as mutual funds.<sup>40</sup> Under the new rules, prior approval must be obtained for trading on securities, and investments must be held for at least one year; additionally, trading during “periods of heightened financial market stress” is prohibited.<sup>41</sup> The rules were formally adopted by the FOMC on February 18, 2022.<sup>42</sup> During his September 2021 press conference, Powell was asked why all 12 Reserve Bank presidents, including Rosengren and Kaplan, had their terms reviewed and renewed in early 2021, even after they had filed annual financial disclosure forms that later became the source of controversy.<sup>43</sup> Powell acknowledged that, at least prior to 2021, financial disclosure forms had not been a part of the Reserve Bank president review process, which takes place every five years.<sup>44</sup> Powell later elaborated that there is no standard process for reviewing and enforcing ethics compliance across the Federal Reserve System, which includes “12 different ethics officers at 12 different Banks.”<sup>45</sup>

### Central Bank Digital Currency

In January 2022, the Fed released a discussion paper weighing the benefits and drawbacks of a U.S. central bank digital currency (CBDC), and initiated a public comment period through May 20, 2022.<sup>46</sup> The paper notes that a CBDC could potentially offer financial inclusion benefits, mitigate concerns posed by stablecoins and other cryptocurrencies, bolster the dollar’s status as the world’s reserve currency, and speed certain types of payments, particularly cross-border transactions that remain slow and costly.<sup>47</sup> However, the paper also highlighted challenges related to cybersecurity and consumer privacy, and was clear that “The Federal Reserve does not intend to proceed with issuance of a CBDC without clear support from the executive branch and from Congress, ideally in the form of a specific authorizing law.”<sup>48</sup> Additionally, in February 2022, the Federal Reserve Bank of Boston, in partnership with the Massachusetts Institute of Technology, released findings on their technological research of a potential CBDC, including a description of a theoretical CBDC transaction processor.<sup>49</sup>

### Financial Stability, including Climate Risks

In its annual report published in December 2021, the Financial Stability Oversight Council (FSOC), on which the Fed Chair serves as a voting member, noted that “The normalization of financial conditions since spring 2020 in part reflected the effectiveness of extraordinary measures taken by the Federal Reserve to support the functioning of a wide range of financial markets and institutions.”<sup>50</sup> However, the FSOC report went on to highlight numerous financial stability risks that existed prior to

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<sup>38</sup> FOMC, [Transcript of Chair Powell’s press conference](#), (Sept. 22, 2021).

<sup>39</sup> New York Times, [A Fed Official’s 2020 Trade Drew Outcry. It went further than first disclosed](#) (Jan. 6, 2022).

<sup>40</sup> Federal Reserve Board, [Federal Reserve Board announces a broad set of new rules that will prohibit the purchase of individual securities, restrict active trading, and increase the timeliness of reporting and public disclosure by Federal Reserve policymakers and senior staff](#), (Oct. 21, 2021).

<sup>41</sup> *Id.*

<sup>42</sup> FOMC, [FOMC formally adopts comprehensive new rules for investment and trading activity](#), (Feb. 18, 2022).

<sup>43</sup> FOMC, [Transcript of Chair Powell’s press conference](#), (Sept. 22, 2021).

<sup>44</sup> *Id.*

<sup>45</sup> FOMC, [Transcript of Chair Powell’s press conference](#), (Nov. 3, 2021).

<sup>46</sup> Federal Reserve Board, [Money and Payments: The US Dollar in the Age of Digital Transformation](#), (Jan. 20, 2022).

<sup>47</sup> *Id.*

<sup>48</sup> *Id.*

<sup>49</sup> Federal Reserve Bank of Boston, [The Federal Reserve Bank of Boston and Massachusetts Institute of Technology release technological research on a central bank digital currency](#) (Feb. 3, 2022).

<sup>50</sup> Financial Stability Oversight Council, [2021 Annual Report](#), (Dec. 2021).

spring 2020, including high levels of corporate debt and distress in the commercial real estate sector.<sup>51</sup> The FSOC report also emphasized the rapid growth in cryptocurrency and stablecoins in 2021, mentioning potential “spillover effects” from price volatility and speculation among these digital assets.<sup>52</sup> The annual report also summarized findings from the October 2021 FSOC’s Report on Climate-Related Financial Risks, which found that “climate change is an emerging threat to the financial stability of the United States,” especially from the growing costs of “physical risks” from climate disasters, and the possibility that there will be a “disorderly transition” away from an economy dependent on fossil fuels.<sup>53</sup>

In its overview of financial stability threats, the FSOC emphasized that “Risks include the possibility of higher-than-expected inflation leading to higher interest rates, causing losses at some financial institutions, higher borrowing costs, and the global economic recovery to lose momentum; the possibility that financial vulnerabilities in China could lead to a hard landing and weigh on the global economy; and the possibility that the ongoing pandemic could continue to cause volatility in economic activity, including economic shutdowns and reopenings.”<sup>54</sup> These risks echo threats emphasized in the Fed’s November 2021 Financial Stability Report, which warned that “A steep rise in interest rates could lead to a large correction in prices of risky assets.”<sup>55</sup>

### Other Regulatory Developments

In September 2020, the Federal Reserve released a proposal “to modernize the regulations that implement the Community Reinvestment Act (CRA) by strengthening, clarifying, and tailoring them to reflect the current banking landscape and better meet the core purpose of the CRA.”<sup>56</sup> Chair Powell stated that, “the [Fed] is hoping to build a foundation for the banking agencies to come together on a consistent approach to CRA...”<sup>57</sup> The proposal was announced a few months after the Office of the Comptroller of the Currency (OCC) finalized its own rule to modernize CRA rules applying to national banks and federal and state savings associations, in June 2020.<sup>58</sup> In December 2021, the OCC withdrew the June 2020 rules, replacing them with rules the Federal banking agencies adopted together in 1995.<sup>59</sup> The OCC indicated it was working with the Fed and the Federal Deposit Insurance Corporation (FDIC) to develop a joint rule.<sup>60</sup>

On July 9, 2021, President Biden issued an executive order on competition that encouraged the Department of Justice to work with banking regulators to “update guidelines on banking mergers to provide more robust scrutiny of mergers.”<sup>61</sup> Chairwoman Maxine Waters subsequently wrote to Chair Powell, calling for the Fed to update its outdated bank merger guidelines.<sup>62</sup> In September 2021, Chair Powell wrote in response, “The Board takes seriously its statutory responsibility to review bank mergers and we are committed to maintaining robust and effective standards that help meet the needs of communities and promote a stable financial system. As contemplated by President Biden’s July 9, 2021 Executive Order, I look forward to coordinating with the Attorney General and the heads of other federal banking agencies to explore ways to further enhance our bank merger framework to ensure it promotes competition, innovation, and consumer choices.”

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<sup>51</sup> *Id.*

<sup>52</sup> *Id.*

<sup>53</sup> Financial Stability Oversight Council, [Report on Climate-Related Financial Risk](#), (Oct. 2021).

<sup>54</sup> Financial Stability Oversight Council, [2021 Annual Report](#), (Dec. 2021).

<sup>55</sup> Federal Reserve, [Financial Stability Report](#), (Nov. 2021).

<sup>56</sup> Federal Reserve, [Federal Reserve Board issues Advance Notice of Proposed Rulemaking on an approach to modernize regulations that implement the Community Reinvestment Act](#) (Sep. 21, 2020).

<sup>57</sup> *Id.*

<sup>58</sup> OCC, [OCC Finalizes Rule to Strengthen and Modernize Community Reinvestment Act Regulations](#) (May 20, 2020).

<sup>59</sup> OCC, [OCC Issues Final Rule to Rescind its 2020 Community Reinvestment Act Rule](#) (Dec. 14, 2021).

<sup>60</sup> OCC, [OCC Statement on Rescinding its 2020 Community Reinvestment Act Rule](#) (Jul. 20, 2021).

<sup>61</sup> The White House, [Fact Sheet: Executive Order on Promoting Competition in the American Economy](#), (Jul. 9, 2021).

<sup>62</sup> House Financial Services Committee, [Waters Applauds President Biden’s Executive Order to Examine Bank Merger Practices, urges Federal Reserve to Strengthen Merger Reviews](#), (Jul. 15, 2021).