OVERSIGHT OF THE TREASURY DEPARTMENT'S AND FEDERAL RESERVE'S PANDEMIC RESPONSE

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OVERSIGHT OF THE TREASURY DEPARTMENT'S AND FEDERAL RESERVE'S PANDEMIC RESPONSE

Wednesday, December 1, 2021

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The committee met, pursuant to notice, at 10:11 a.m., in room 2128, Rayburn House Office Building, Hon. Maxine Waters [chairwoman of the committee] presiding.

Members present: Representatives Waters, Sherman, Scott, Green, Cleaver, Perlmutter, Himes, Foster, Beatty, Vargas, Gottheimer, Gonzalez of Texas, Lawson, San Nicolas, Axne, Casten, Pressley, Lynch, Adams, Tlaib, Dean, Ocasio-Cortez, Garcia of Illinois, Garcia of Texas, Williams of Georgia, Auchincloss; McHenry, Lucas, Posey, Luetkemeyer, Huizenga, Wagner, Barr, Williams of Texas, Hill, Emmer, Zeldin, Loudermilk, Mooney, Davidson, Budd, Kustoff, Hollingsworth, Gonzalez of Ohio, Rose, Steil, Gooden, Timmons, Taylor, and Sessions.

Chairwoman WATERS. The Financial Services Committee will come to order.

Without objection, the Chair is authorized to declare a recess of the committee at any time.

As a reminder, I ask all Members participating remotely to keep themselves muted when they are not being recognized by the Chair.

We will conclude today's hearing at 12:15 p.m. Members who were unable to ask questions at our September 30th hearing with Secretary Yellen and Chair Powell will be given priority to ask their questions today, and we will return to our normal order of recognition once these Members have asked their questions.

Today's hearing is entitled, "Oversight of the Treasury Department's and Federal Reserve's Pandemic Response."

I now recognize myself for 4 minutes to give an opening statement.

Welcome back, Secretary Yellen and Chair Powell. As this pandemic continues, the Biden Administration and congressional Democrats remain hard at work to provide protections and essential relief to individuals, families, and small businesses across the country. The emergence of the new Omicron variant shows us that this crisis is not over and we must remain vigilant to protect our country and our families from the devastation of COVID-19.

Since Democrats have been in power, we have delivered for the American public. Democrats provided rental relief for struggling renters, provided 70,000 vouchers to address homelessness, provided support to State and local governments, and helped our nation's restaurants. Democrats helped businesses reopen and prioritized vaccine distribution, and because of this work, 74.5 percent of individuals 5 years of age and older have received at least one shot. In fact, this Thanksgiving was the first time since the pandemic began that many of us spent time in person with our friends and families.

Under the Biden Administration's leadership, the economy has created 5.6 million jobs, more than any other Administration's first 9 months. And weekly jobless claims recently fell to 199,000, the lowest total in more than 50 years.

But our work does not stop at pandemic relief. We also enacted bipartisan infrastructure legislation, an achievement that has eluded Republican and Democratic Presidents alike for decades. Under the Biden Administration, we now have the funding in place and the programs to finally rebuild and refit our nation's bridges, roads, and railways, and bring broadband to millions. And soon, the Build Back Better Act will make long-overdue investments in the nation's affordable housing infrastructure, childcare, and education workforce. I hope that our Senate colleagues will quickly send this bill to the President's desk.

While these investments will be critical, the Fed's unfinished objectives of full employment and price stability serve as a reminder that we must not leave anyone behind during this recovery. Chair Powell has identified supply chain bottlenecks and ongoing caregiving needs as two of the major barriers to continued economic recovery. Congressional Democrats have responded by passing bills that invest in childcare and help clear those bottlenecks.

It is crucial that the Fed hold off on declaring a premature victory on this economic recovery until the communities that have been hit the hardest—people of color, renters who fell behind on their rent, and women who have done the bulk of the caregiving—have a chance to experience the recovery. If we are truly to build back better, we must ensure that people of color are represented in the Fed's leadership. We must make sure that people's caregiving needs are met so that they can pursue new opportunities in education, clean energy, and more. We must address the root causes of rising prices by investing in housing and supply chain resilience.

Secretary Yellen, Chair Powell, I look forward to discussing your ongoing work to respond to the pandemic.

I will now recognize the ranking member of the committee, the gentleman from North Carolina, Mr. McHenry, for 4 minutes.

Mr. MCHENRY. Thank you, Madam Chairwoman, and Chair Powell, congratulations on your renomination. I am glad to see that President Biden recognizes what I have said all along, that you have earned and deserve another term leading the Federal Reserve. Under your leadership, the Fed took decisive and unprecedented action to prevent the COVID-related economic challenges from becoming an economic or financial crisis for Americans, but there is more to work to be done.

We need to unwind these firefighting measures and turn our focus to rebuilding the economy, which, thanks to pro-growth Republican policies, was the greatest in our lifetimes just prior to the pandemic. It is the Fed's job to look at and evaluate the macroeconomic picture. It is not their job to respond to each and every variant. But it is not just the pandemic that is posing a threat to our full recovery. It is Democrats' bad fiscal policy decisions that are driving inflation. Right before Thanksgiving, House Democrats passed another massive multi-trillion-dollar spending bill. Our economy is feeling the full force of that politically-motived decision.

Look at the job market. In September, a job opening and labor turnover survey reported more than 10 million unfilled jobs remaining near a record high. Four-point-four million people quit their jobs, an all-time high. Labor shortages continue to hold back growth and weaken the backbone of our economy: small businesses. And instead of seeking bipartisan solutions to support working parents as we continue to manage COVID, Democrats opted for unworkable mandates.

NFIB's small business survey for October showed the economic outlook deteriorating to its lowest level since November 2012. Our labor force participation rate has stagnated since June 2020. What do these things have in common? All of these issues have in common bad fiscal policy, not a question of monetary policy. Nearly half of small businesses report they had job openings unfilled, for which they unable to even get qualified applicants; in fact, 58 percent indicated they had few or no qualified applicants.

Look at consumer prices. From a year through October, the headline Consumer Price Index (CPI) rose to 6.2 percent, the largest annual increase in 30 years. Consumer sentiment for November dropped to its lowest level in a decade. In fact, American families just experienced the most expensive Thanksgiving on record.

Now, Democrats want to blame increased prices on American businesses or some other force. It is their policies. It is their policies. It is coming from inside the House. It is coming from inside the Senate. It is coming from inside this Administration. They are driving up costs for the American people. In fact, in October, the San Francisco Fed released a report showing that Democrat policies are harming our recovery.

So, what do House Democrats do? Well, they spend more money. That was the big vote just before Thanksgiving. More money. That is pouring jet fuel onto an inflationary trajectory we have in the economy. Speaking of fuel, though, just look at gas prices. This is the bad policies from this Administration. When you shut off American energy sources, it drives up the cost of petrochemicals in our economy. Outsourcing that to OPEC actually makes us more dependent on other foreign sources.

So as important as it is for us to hear from both of you today—in fact, this is the final remnant of the CARES Act, the fact that you are mandated to come and appear before us on a quarterly basis about programs that have now been rescinded, but this is the final remnant of the CARES Act, which was, by the way, a bipartisan bill passed through the House and the Senate and signed by the President last year. But we look forward to hearing from you today about this broad economic question that we are all very con-

cerned about. And as we discuss these policies and what we are doing to address them, I hope that we can talk about solutions, not just the problems.

And with that, I yield back.

Chairwoman WATERS. Thank you, Mr. McHenry. I now recognize the gentleman from Texas, Mr. Green, for 1 minute.

Mr. GREEN. Thank you, Madam Chairwoman. Madam Chairwoman, the Fed is the lender of last resort, and I compliment the Fed for what it is has done under its Section 13(3) authority to create nine emergency facilities, seven of which were supported by funds from the Treasury. But I would also like to note that today, currently, unemployment of African American workers is at 7.9 percent, and at 5.9 percent for Latino workers, higher than the national average of 4.6 percent, and 4 percent for Whites.

Hence, today we must ask, in view of how unemployment rates still vary dramatically across races, what more can the Federal Reserve do as the lender of last resort to advance its mandate to foster economic conditions that achieve both maximum employment and stable prices, not just for some, but for all. What can regulators do not only to continue to bolster the economic recovery, but also the pandemic. We have to deal with it and reduce the insecurity as it relates to the wealth gap. I look forward to hearing the witnesses respond to this and other questions.

Chairwoman WATERS. I now recognize the gentleman from Minnesota, Mr. Emmer, for 1 minute.

Mr. EMMER. Thank you, Madam Chairwoman. My constituents just experienced the most expensive Thanksgiving dinner in history. A 16-pound turkey is up 23 percent. Costco pumpkin pie is up 17 percent. A 2-pound bag of carrots is up nearly 50 percent. Let's also not forget the outrageous prices at the pump making it too expensive for many Americans to drive home and celebrate Thanksgiving with their families in the first place. This inflation is not transitory, as our witnesses finally acknowledged yesterday, and it is not a high-class problem, despite what the Biden Administration will tell you. That is a lie propagated by those who have never had to do mental math at the grocery store to make sure the amount in their cart does not exceed the cash in their wallet.

For Democrat leaders, paying 42 percent more at the pump probably isn't a problem, when you are riding a government-funded high-speed rail in Silicon Valley. More than 90 percent of my constituents reported that rising prices were impacting their household budgets. Inflation is destroying Americans' ability to save for retirement, buy a home, or build wealth. This isn't a tax on the rich; it is an enormous burden on working Americans. We must stop this reckless spending before it financially cripples our nation.

I yield back the balance of my time.

Chairwoman WATERS. I want to welcome our distinguished witnesses today, who need little introduction to members of the committee. First, I want to welcome the Honorable Janet Yellen, Secretary of the United States Department of the Treasury, who has served in that role since her confirmation in January of this year.

Our second distinguished witness today is the Honorable Jerome Powell, Chair of the Board of Governors of the Federal Reserve System, who has served in that role since February of 2018.

You will each have 5 minutes to summarize your testimony. You should be able to see a timer that will indicate how much time you have left.

And without objection, your written statements will be made a part of the record.

Secretary Yellen, you are now recognized for 5 minutes to present your testimony.

STATEMENT OF THE HONORABLE JANET L. YELLEN, SECRETARY, U.S. DEPARTMENT OF THE TREASURY

Secretary YELLEN. Thank you, Chairwoman Waters, Ranking Member McHenry, and members of the committee. It is a pleasure to testify today.

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

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

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

At this point, I am confident that our recovery remains strong, and is even quite remarkable when put in context. We should not forget that last winter, there was a risk that our economy was going to slip into a prolonged recession. And there is an alternate reality where right now, millions more people cannot find a job or are losing the roofs over their heads. It is clear that what has separated us from that counterfactual are the bold relief measures Congress has enacted during the crisis: the CARES Act; the Consolidated Appropriations Act; and the American Rescue Plan. And it is not just the passage of these laws that has made the difference, but their effective implementation.

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

First, the American Rescue Plan's expanded child tax credit has been sent out every month since July, putting about $77 billion in

the pockets of families of more than 61 million children. Families are using these funds for essential needs, like food. And, in fact, according to the Census Bureau, food insecurity among families with children dropped 24 percent after the July payments, which is a profound economic and moral victory for the country.

Meanwhile, the Emergency Rental Assistance Program has significantly expanded, providing much-needed assistance to over 2 million households. This assistance has helped keep eviction rates below pre-pandemic levels. This month, we also released guidelines for the $10 billion State Small Business Credit Initiative (SSBCI), which will provide targeted lending and investments that will help small businesses grow and create well-paying jobs.

As consequential as November was, December promises to be more so. There are two decisions facing Congress that could send our economy in very different directions. The first is the debt limit. I cannot overstate how critical it is that Congress address this issue. America must pay its bills on time and in full. If we do not, we will eviscerate our current recovery. In a matter of days, the majority of Americans would suffer financial pain as critical payments, like Social Security checks and military paychecks, would not reach their bank accounts, and that would likely be followed by a deep recession.

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

Thanks to your work, we have ensured that America will recover from this pandemic. Now, with this bill, we have the chance to ensure that America thrives in a post-pandemic world. With that, I am happy to take your questions.

[The prepared statement of Secretary Yellen can be found on page 42 of the appendix.]

Chairwoman WATERS. Thank you very much. Chair Powell, you are now recognized for 5 minutes to present your testimony.

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

Mr. POWELL. Chairwoman Waters, Ranking Member McHenry, and other members of the committee, thank you for the opportunity to testify today.

The economy has continued to strengthen. The rise in delta variant cases temporarily slowed progress this past summer, restraining previously-rapid growth in household and business spending, intensifying supply chain disruptions, and, in some cases, keeping people from returning to work or looking for a job. Fiscal and monetary policy and the healthy financial positions of households and businesses continue to support aggregate demand. Recent data suggest that the post-September decline in cases corresponded to a

pick-up in economic growth. GDP appears on track to grow about 5 percent in 2021, the fastest pace in many years.

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

The economic downturn has not fallen equally, and those least able to shoulder the burden have been hit the hardest. In particular, despite progress, joblessness continues to fall disproportionately on African Americans and Hispanics. Pandemic-related supply and demand imbalances have contributed to notable price increase in some areas. Supply chain problems have made it difficult for producers to meet strong demand, particularly for goods. Increases in energy prices and rents are also pushing inflation upward. As a result, overall inflation is running well above our 2-percent longer-run goal, with the PCE Price Index up 5 percent over the 12 months ending in October.

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

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

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

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

[The prepared statement of Chair Powell can be found on page 38 of the appendix.]

Chairwoman WATERS. Thank you very much. I now recognize myself for 5 minutes for questions.

As the pandemic was raging last year, many members of this committee suggested that for all the pain and disruption that the virus was causing, Americans would respond with strength, cre-

ativity, and ingenuity, as we have done in other crises. That is a guiding principle of Build Back Better. It is not enough to just get back to the way things were before. We must shape a recovery that builds a new, stronger, and more equitable economy for the future. So, let's talk about the progress we are making.

Chair Powell, the American Rescue Plan that passed in March helped accelerate vaccinations and re-openings over the last 9 months. The economy has added over 5.6 million jobs, and workers have started to see meaningful wage growth for the first time in decades. Do you view these wage growth trends as positive? How does your economic recovery compare with other major economies? And do you still think that inflation will be temporary, and if so, why?

Mr. POWELL. Thank you, Madam Chairwoman. On wages, we have seen wages moving up significantly, and at this point, of course, we like to see wages move up. Everyone likes to see wages move up. That is how incomes rise generation to generation. And particularly at the lower end of the wage spectrum, we are seeing wages move up. At this point, we don't see them moving up at a troubling rate that would tend to spark higher inflation, but that is something we are watching very carefully.

In terms of other economies, our recovery is the strongest. It is stronger than the others. We had stronger fiscal support, frankly, and so part of it is that, but our recovery is really the most advanced of any of the largest ones.

In terms of the temporary nature of inflation, I would say that the inflation that we are seeing is still clearly connected to the pandemic-related factors. I would also add, though, that it has spread more broadly in the economy, and I think that the risk of persistent higher inflation has clearly risen. And I think that our policy has adapted to that and will continue to adapt.

Chairwoman WATERS. If you could expound a little bit more on what is happening, I remember when we first started to talk about inflation, we basically all talked about it in terms of it being transitory. And I think that what you just alluded to, relative to how the economy will act or recover—are you directly talking about stimulating the economy with, for example, Build Back Better, and that will help with the inflation that we are experiencing?

Mr. POWELL. I do think that forecasters at the Fed, and pretty much all forecasters, do expect that inflation will move down over the second half of next year, closer to our longer-run goal of 2 percent. But as I mentioned, we have seen inflation be more persistent. We have seen the factors that are causing higher inflation to be more persistent. There, I am thinking of the combination of very high demand, but also the supply side difficulties that we are having with blockages and that sort of thing and shortages.

In terms of the effects of the Build Back Better bill, that is not something that is appropriate for me to comment on.

Chairwoman WATERS. Thank you.

Secretary Yellen, when you were the Fed Chair, you were known for looking beyond the top line unemployment rate to other figures, like the rate of employees quitting, the so-called quits rate, to determine whether the economy was reaching full employment. The quits rate has surpassed the previous records, leading some to label

what has happened in the economy as the, "Great Resignation." When Chair Powell testified in our committee in July, he identified childcare and school closures as one of the biggest barriers to further labor market recovery. Can you explain what the quit rate tells us about the economy today, and do you believe that the investments that the Build Back Better Act would make in childcare and universal Pre-K will help with this?

Secretary YELLEN. The quit rate, when it is high, and as you mentioned, it is the highest it has been in the history of this series, it signifies a tight labor market, one where workers are leaving their jobs because they feel confident about their ability to get another job, or are getting outside offers and feel good about the labor market. And that is what we have and we see it reflected in surveys of workers who feel that jobs are plentiful. And, of course, businesses almost universally complain now about the difficulty of hiring workers, but this is a very unusual shock that has hit the economy.

And at the same time, we see that for a large number of workers, their participation in the labor force has declined, and it hasn't yet gotten back up to normal levels. In some cases, it is because there were early retirements, and, of course, the pandemic did result in, unfortunately, a large death toll. But I think there are still many people, especially low-income workers, who don't feel confident about the health consequences of working, especially in face-to-face type jobs, and so those people are still out of the labor force. And I think as we get greater control over the pandemic, the supply of workers will increase as those people come back to work.

Chairwoman WATERS. The gentleman from North Carolina, Mr. McHenry, who is the ranking member of the committee, is now recognized for 5 minutes.

Mr. MCHENRY. Chair Powell, the last time you were here, in fact, both in September and July, I asked you about this. The Fed incorporates new spending from the fiscal house, from Congress and the White House. They incorporate that into projections, and the effects of your monetary decisions with the knowns of fiscal policy. And at the time, and you have said this twice before, and I think you will say it again, but a lot depends on the details. Certainly, you incorporate that information, but a lot depends on the details. Is that still true?

Mr. POWELL. Yes.

Mr. MCHENRY. Okay. So in light of that, we had in February a Democrat-only proposal that made it into law, that $2 trillion, and just last week, another bill that the Administration supports that enhances the deficit. According to the Congressional Budget Office, it raises the deficit by $400 billion, and so we have those two large fiscal pieces here.

When Chair Waters asked the Chairman of the Federal Reserve whether or not spending more money from the fiscal house will improve inflation, instead of improve, I want to translate for the public. When a Democrat says, "improve inflation," it means enhance or raise inflation, just to be clear, okay? So my friends on the left, when they say, "improve inflation," they want more of it.

Secretary Yellen, to this point, these things are imprecise. Policymaking is imprecise. But back in February, there was an output

gap this Administration acknowledged, and economic projections, and came to Congress for fiscal stimulus in the name of COVID, but a fiscal stimulus, right? Is it fair to say that maybe you overshot in February?

Secretary YELLEN. I think it is fair to say that we had a sizable fiscal stimulus. We were very concerned that the most significant risk facing the American economy was a shortage of jobs and a prolonged downturn that would scar many people, particularly the most—

Mr. MCHENRY. But in February, in the output gap, versus what the fiscal stimulus was that your Administration pushed for and got, perhaps you overshot. Is that fair to say? Is that a fair assumption?

Secretary YELLEN. I don't think that is a fair assumption.

Mr. MCHENRY. It is not?

Secretary YELLEN. We addressed what was very significant risk, and as Chair Powell just mentioned, the United States—

Mr. MCHENRY. Okay. So, you think that that fiscal—

Secretary YELLEN. —agree—

Mr. MCHENRY. Reclaiming my time, Madam Secretary.

Secretary YELLEN. No. Look, the inflation—

Mr. MCHENRY. I am going to ask a very particular question about the output gap. The output gap at the beginning of the year was $300 to $400 billion, right? Economists on the left and the right were saying that that was about right.

Secretary YELLEN. I think it was extremely hard under the circumstances to have any certainty—

Mr. MCHENRY. Okay. And I am asking you a very reasonable question, as a policymaker.

Secretary YELLEN. —about what was the output gap.

Mr. MCHENRY. Okay. As a policymaker, I am just asking you—you are a noted economist, who was the Chair of the Federal Reserve. You are now in a very different position having to, I think, sell what is a pretty lousy economic agenda, but you are doing a great job trying to sell this Administration's agenda. The economic question that I hear from economists on the left now, and your former San Francisco Fed even acknowledges, is that February stimulus contributed to the inflation we are now experiencing.

Secretary YELLEN. Look, inflation—

Mr. MCHENRY. Is that a fair assumption or not?

Secretary YELLEN. Inflation is a matter of demand and supply, and it is certainly true that the American Rescue Plan put money in people's pockets, helped them meet expenses that they had, and contributed to strong demand in the U.S. economy. But if you look at the amount of inflation that we have and its causes, that is, at most, a small contributor. The pandemic and what it has done to supply chains diverting demand away from services and massively onto goods has resulted in supply chain problems, and the impact we have seen that has now been long-lasting on labor supply due to the pandemic. I would say those are very important factors.

Mr. MCHENRY. But there is a distinction here between a supply shock and a demand issue, right? Is that fair to say?

Secretary YELLEN. The Recovery Plan did boost demand, and that is one reason that most households are in a favorable financial

position, much better than they otherwise would have been, and it has enabled their spending. But the fact that the spending because of the pandemic has been so focused on goods as opposed to services has contributed massively to the supply chain problems that are boosting prices.

Mr. MCHENRY. Okay. So, Madam Secretary, Chairman Powell, the Congress, and the public, and this Administration wants to point everything onto the Federal Reserve on inflation. That is simply not the case. It is the multiple trillions of dollars that this Congress and this Administration is spending that is putting jet fuel on the fires of this economy. It is making things worse.

Mr. PERLMUTTER. Regular order.

Mr. MCHENRY. It is the policies of this Administration—

Ms. DEAN. [presiding]. The gentleman's time has expired.

Mr. MCHENRY. The Chair went over time, and I am going over time as well, so let me just say this.

Ms. DEAN. I was not—

Mr. MCHENRY. It is the Administration's agenda here that it—I will finish my sentence here, Madam Chairwoman, okay? It is the Administration's agenda that is driving up the cost of things, and is making the American people worse off, not better off. Inflation is outpacing wage increases. This is on the Democrat House, Senate, and White House. I yield back.

Ms. DEAN. Thank you. The gentleman yields back.

The gentleman from Colorado, Mr. Perlmutter, who is also the Chair of our Subcommittee on Consumer Protection and Financial Institutions, is now recognized for 5 minutes.

Mr. PERLMUTTER. Thank you. Good morning, and thank you both for your service. A couple of things—I was listening to the Republicans talk about inflation, but I think a more important topic we should be talking about is the fact that since ex-President Trump was defeated by Joe Biden in November of last year, we have added almost 6 million jobs, some 620,000 per month, and we have seen the stock market rise from 26,000 to 36,000—now it has backed off to about 35,000—in the last year at $1.4 billion per point. It is almost up $13 trillion since Joe Biden won the election last year. We have seen GDP up dramatically over the last year. And my friends, I appreciate that the Republicans want to talk about inflation because that is all they can talk about.

I would like to ask my first question of you, Secretary Yellen. Unemployment is falling at the fastest rate in 50 years and is now at 4.6 percent. Prior to the American Rescue Plan passing, the CBO projected it would take until the 4th quarter of 2023 to get to 4.6 percent unemployment, so we are 2 years ahead. Madam Secretary, my question is on Build Back Better and how will it help in terms of the recovery and create more opportunities for everyday Americans?

Secretary YELLEN. Thank you for that question. Build Back Better is really focused on addressing long-term issues in our economy that have been holding back economic growth and contributing to economic inequality. An important aspect of Build Back Better is what it does for children and households with children: 2 years of universal early childhood education for 3- and 4-year-olds and subsidies for childcare to make quality childcare affordable for the

great majority of households, along with a continuation, at least for a year, of the child tax credit that has made it possible for so many families to support the needs of their children, keep roofs over their heads, and diminish food insecurity. And these childcare provisions as well as other parts of the program should serve to boost labor force participation, particularly of women, where we have lagged behind most other developed countries. And research suggests that our failure to provide adequate childcare and paid family leave is an important contributor. In addition—

Mr. PERLMUTTER. Let me change the subject for one second, to a subject that I have asked both of you about in the past, the Safe Banking Act, which involves allowing financial institutions to provide financial services to the cannabis industry and those that serve the cannabis industry. And you may know that we passed it with big bipartisan votes out of this committee, off the House Floor to the Senate last cycle, this cycle, and we amended the National Defense Authorization Act. That is just to remind you where we are.

In October, Cassidy Collins, a Senior Counsel in the Office of the Chief Counsel of the IRS noted the special type of collection challenge the IRS undertakes regarding tax collection from cannabis-related businesses forced to operate in cash only. It is estimated that in just 3 States, nearly $50 million in taxes went unassessed because of unique issues surrounding the cannabis industry. Madam Secretary, do you agree that if these businesses were simply allowed to access the banking system and didn't have to transact business only in cash, it would make the IRS' job easier?

Secretary YELLEN. Yes, of course, it would.

Mr. PERLMUTTER. I yield back.

Ms. DEAN. The gentleman yields back.

The gentlewoman from Missouri, Mrs. Wagner, is now recognized for 5 minutes.

Mrs. WAGNER. Thank you, Madam Chairwoman. Secretary Yellen and Chair Powell, thank you for joining us today. And as I expressed to you earlier, Chair Powell, I want to congratulate you again on your renomination for another term leading the Federal Reserve Board, and I look forward to continuing to work with you.

Chair Powell, you responded that our best expectation—this is your quote—"Our best expectation is there will be modest upward pressure on prices this year, but they won't be particularly large or persistent in the future."

Chair Powell, since that hearing 8 months ago, I have asked you about higher inflation. And yes, to my good friend, the gentleman from Colorado, we are going to talk about inflation. That is all that people are talking about in my district, Missouri's 2nd Congressional District. They want to know why these prices keep going higher and higher and higher and higher. And no, I don't think blame necessarily falls at the foot of the Fed. It is Democrat policies and overspending.

But I digress. I asked you about higher inflation 2 more times, sir, and Americans have experienced surging increases in, as I said, food, fuel, and housing, leading up to the most expensive Thanksgiving, Christmas, and holiday season on record. Is it your

view, sir, that these price increases still aren't, "particularly large or persistent?"

Mr. POWELL. No, that is no longer my view.

Mrs. WAGNER. Thank you for that answer. Chair Powell, yesterday in the Senate Banking Committee, you stated that you believe it is time to retire the word, "transitory." I couldn't agree more. And to explain more clearly what the Fed means when referring to transitory inflation, I think most Americans, sir, define, "transitory," as, "temporary," but the strain on their monthly budgets and paychecks from this inflation does not seem transitory or temporary. If that is not what you mean, then could you explain the Fed's meaning, please?

Mr. POWELL. Sure. The word, "transitory," to some, as you suggest, has a sense of short-lived, a matter of months kind of thing, whereas we are using it in a specific way to say that transitory to us means that this episode, however lengthy, will not leave a persistent long-run string of high inflation behind it. And the problem is that our whole role that we play really revolves around having clear communication. When you have a word that means different things to different people, we just need to move on and find a better way to explain ourselves. And most forecasters still do overwhelmingly believe that inflation will come down significantly in the second half of next year. But as I have said, the risks of higher inflation have moved up more persistent—

Mrs. WAGNER. Will soaring debt and deficits, and excessive spending, and dumping stimulus spending after stimulus spending after stimulus spending into our economy be a driver of inflation?

Mr. POWELL. I guess I would say that I don't want to comment on fiscal policy directly.

Mrs. WAGNER. I am just saying, in general.

Mr. POWELL. In general, if you go back to last March, the median of the blue chip, the best resource forecasters thought that inflation would be right about at our target, in March of this year. What was wrong with that analysis was really that we understood demand would be strong, but we didn't understand how significant problems on the supply side, would be, which are very hard. They were unique.

Mrs. WAGNER. And how much money there would be in households and in the system.

Mr. POWELL. Demand is very, very strong, no question, from fiscal policy and also from—

Mrs. WAGNER. Fiscal policy. I agree.

Mr. POWELL. —a quickly rebounding economy. The economy is very strong now.

Mrs. WAGNER. I agree. Secretary Yellen, let me ask you. The CBO, and they reflect one of the more conservative scores, has said that Biden's spending bill, the most recent one, will add $367 billion to the deficit. Could you describe the long-term consequences of too much fiscal spending on financial markets and the price of consumer goods?

Secretary YELLEN. Let me first put the CBO number that you mentioned in perspective. They did score Build Back Better as resulting in $367 billion in deficits over 10 years. Not in a year, but over 10 years.

Mrs. WAGNER. There were a lot of gimmicks that went through to get that number, too. Let's just be honest.

Secretary YELLEN. However, that score, they made clear, does not include the revenue that will come from enhancement of resources for tax enforcement. It doesn't include the Treasury—

Mrs. WAGNER. How does this overspending on our financial markets—

Ms. DEAN. The gentlewoman's time has expired.

Mrs. WAGNER. —and deal with the price of consumer goods?

Ms. DEAN. The gentlewoman's—

Mrs. WAGNER. I would like the gentlelady to—

Ms. DEAN. The gentlewoman's time has expired. The gentleman from Texas, Mr. Gonzalez, is now recognized for 5 minutes.

Mr. GONZALEZ OF TEXAS. Thank you, Madam Chairwoman, and I would like to thank Secretary Yellen and Chair Powell for being here with us on such an important occasion, at this critical moment, and to talk about a couple of issues that have affected my district. My first question is to Secretary Yellen.

Secretary, when you testified before this committee in July, you identified caregiving needs as one of the major barriers people face in getting back to work following the COVID pandemic. Over 80 percent of South Texans residing in my congressional district identify as Latino, but only 19½ percent of 3- and 4-year-olds are enrolled in publicly-funded preschool. What impact do you think the Build Back Better Act will have in supporting our economic recovery and getting folks back to work? I know we are talking about this labor shortage, but, specifically, do you believe investing in childcare and universal pre-K will bolster our economic and labor market recovery?

Secretary YELLEN. Yes, I absolutely do. As I mentioned previously, one of the reasons, that even before the pandemic, women's labor force participation in the United States fell short of that in many developed countries is the lack of public support for childcare and paid family leave. And during the pandemic, this became so much worse because of the issues in childcare and schools not being open. But many childcare facilities closed, and for people who work in childcare that involves face-to-face contact, health concerns have held people back from going to work there.

So, Build Back Better will subsidize childcare so that it is affordable for almost all American families and provide 2 years of universal pre-K for 3- and 4-year-olds. And research that Treasury recently summarized in a working paper shows that this will boost labor supply, particularly that of women. And more recently, the Congressional Budget Office also published a paper that opines that this is likely to have positive impacts on employment.

Mr. GONZALEZ OF TEXAS. Thank you. And as you know, in the CARES Act, we established the Paycheck Protection Program (PPP), which has been administered by the Small Business Administration (SBA) in concert with Treasury, to provide economic relief and emergency payroll support to small businesses hit hardest by the pandemic. The program provided a lifeline for many small businesses in my district and across the country. However, we struggle to reach businesses in communities of color. And as I mentioned earlier, over 80 percent of my district is Latino, and over 19,000

businesses applied for PPP, of which only 23¼ identified as Latino. How can we look at this information and learn how to better reach minority-owned businesses to ensure they have the same access to these resources, and what are we doing to make this happen?

Secretary YELLEN. Yes. In the more recent Payroll Protection Program, priority was given to Community Development Financial Institutions (CDFIs) and Minority Depository Institutions (MDIs) to have access to those funds in order to provide better support to minority areas. And going forward, Congress has provided considerable resources to CDFIs and MDIs, and what we have found is that these institutions have great ability to reach businesses in underserved areas. So, the CDFI program that we run in Treasury is very focused on making sure that support gets out, and we expect these institutions to play a significant role in the State Small Business Credit Initiative for which we recently issued guidelines.

Mr. GONZALEZ OF TEXAS. Thank you. And lastly, I just want to ask a question on the Emergency Capital Investment Program that was established and consolidated in the Appropriations Act of 2021 to encourage low- and moderate-income community financial institutions to bolster their efforts to support and engage with small businesses in their communities. I understand the deadline to submit—

Ms. DEAN. The gentleman's time has expired.

Mr. GONZALEZ OF OHIO. Okay. Thank you. I yield back.

Ms. DEAN. The gentleman from Texas, Mr. Taylor, is now recognized for 5 minutes.

Mr. TAYLOR. Thank you, Madam Chairwoman. I appreciate the opportunity to be here with you.

Chairman Powell, I am sure you are familiar with Milton Friedman's book, "Free to Choose."

Mr. POWELL. Yes.

Mr. TAYLOR. This is an important college textbook, I would think, on economics, and I would commend Chapter 9 to you, "The Cure for Inflation." I think Mr. Friedman lays out some important premises of what creates inflation. And I am sure you are familiar with the fact that the M2 money supply has gone up very dramatically. You are familiar with the Federal Reserve holdings and trillions of dollars of debt, the very dramatic increase on your balance sheet—I know you are aware of this because you were there—and the money in circulation. And this comports with, again, going back to Chapter 9 of Milton Friedman's book, and he goes in and talks about the inflation that took place in the 1970s, and he has a series of charts showing the supply of money. So, here is the United States, and he goes on and shows the supply of money in Germany and Japan, and the increase in prices, and then also, in the United Kingdom and Brazil.

And so all of this is going to a very central point that when you increase money, and actually let me quote Mr. Friedman here for a second: "When the quantity of money increases more rapidly than the quantity of goods and services available for purchase, we have inflation." You have printed too much money, sir, and that money has created inflation. To stop the inflation, I would recommend to you to stop printing the money. You indicated yesterday that you

are going to start to slow down the printing of money. I think you should stop it and stop it right now.

Inflation is on the minds of Americans. In poll after poll for the last many months, for 70 to 80 percent of Americans, it is a top issue. They are concerned about inflation. Inflation is eating away their purchasing power. It is actually robbing them of the increases in wages that we have seen because their purchasing power is down because of the inflation created by the money that is being printed. Would you like to respond to that?

Mr. POWELL. Sure. Price stability is one of our two goals, the other being maximum employment, and we have to balance those two goals when they are in tension as they are right now. But I assure you we will use our tools to make sure that this high inflation we are experiencing does not become entrenched. If I may also add, though, the connection between monetary aggregates and either growth or inflation was very strong for a long, long time, which ended about 40 years ago. So, the so-called velocity of money became quite variable. And now we think more of just the imbalances between supply and demand in the real economy rather than monetary aggregates, which isn't to say that was wrong when written. I think it was probably correct when it was written, but it has been a different economy and a different financial system for some time. Nonetheless, your point on inflation is well taken.

Mr. TAYLOR. And I appreciate that. Secretary Yellen, don't you think that the deficit spending of this Administration is on an unparalleled level? The $2 trillion in deficit spending in February, dumping money into the economy, has created the inflation that we see today.

Secretary YELLEN. Well, the Build Back Better Plan that is under consideration now is paid for.

Mr. TAYLOR. Okay. But the $2 trillion in February, was that paid for?

Secretary YELLEN. The Rescue Plan was not paid for.

Mr. TAYLOR. Okay. So, that is $2 trillion of deficit spending.

Secretary YELLEN. There was a very good reason to pass that. We faced a major risk in terms of seeing our workforce, particularly the most vulnerable members of the American society, scarred permanently, losing homes, being unable to put food on their tables, take care of their children, and being permanently financially harmed, as well as there was a shortage of demand in the economy that could have resulted in long-lasting joblessness and high unemployment. And the plan that was enacted into law was focused on dealing with that, and it has been successful with the—

Mr. TAYLOR. Did it create inflation? Did the $2 trillion of deficit spending create inflation?

Secretary YELLEN. It did boost demand, and that is one of several factors that are involved in inflation. But absent the pandemic and the supply chain problems we have had, and the negative impact the pandemic has had on the supply of labor—

Mr. TAYLOR. Secretary Yellen, what is interesting—

Secretary Yellen —would be—

Mr. TAYLOR. Secretary Yellen, just to finish here, what is interesting is that Milton Friedman wrote in 1979, "No government is going to accept responsibility for producing inflation," and you,

ma'am, have just embodied that denial because your deficit spending is creating the inflation that Americans need relief from now. I yield back.

Ms. DEAN. The gentleman's time has expired. The gentleman from Guam, Mr. San Nicolas, is now recognized for 5 minutes.

Mr. SAN NICOLAS. Thank you, Madam Chairwoman. I would like to begin by clarifying the fact that the deficit spending just referred to was to address the pandemic concerns that were impacting this country, the unemployment of our people, the fact that there were so many businesses that needed support. And one of the reasons why we enacted the relief packages that we did was to make sure that we didn't collapse our economy as a result of these pandemic circumstances. So, let's make sure we are bifurcating the issues here and not just hammering away on what happened in the past and trying to tie it into the present. And with that, I would like to talk about the present.

It looks like the narrative of the Minority is to try and pin the inflationary circumstances of this country on the fiscal policy that is being pursued by the sitting government. And I think it is important for us to remember that just a few months ago, the very same Minority, in similar hearings, were stating that they were upset that the rollout of relief funding was not happening fast enough. That is entirely juxtaposed to the inflationary arguments being presented today. They were arguing for us to push even more money into the financial system, into the monetary supply. So, I really hope that we can go back to that mentality, because getting help to the American people during the pandemic was and is a priority, and continuing to get help to the American people in our infrastructure and in the many good things in Build Back Better should also continue to be a priority.

It needs to further be reminded that Build Back Better has not even been enacted yet. Its fiscal impacts have not been materialized. It is not factoring into the money supply. And we recently just had testimony that inflation is running at a certain clip up to October—I believe it was mentioned by Chairman Powell—at 5 percent. And I think that is important for us to contextualize because we are suffering from inflation, but the inflationary pressures are not as a result of the recently-passed Build Back Better bill that still remains to be enacted.

With that being said, I would like, without objection, Madam Chairwoman, to enter into the record an article dated October 15, 2021, by Paul Hannon in London, Ryan Dube in Lima, and Stella Yifan Xie in Hong Kong, under The Wall Street Journal entitled, "Inflation Surges Worldwide as COVID-19 Lockdowns End and Supply Chains Can't Cope."

Ms. DEAN. Without objection, it is so ordered.

Mr. SAN NICOLAS. And in that vein, I would like to pose a question to Chairman Powell. Mr. Chairman, is the inflation that we are enduring here in America today, is it just occurring in America or is there a global inflationary environment?

Mr. POWELL. As you mentioned, if you look at Western Europe, Germany in particular, if you look at the United Kingdom and you look at Canada, you are seeing high rates of inflation in many of

these countries, less so in Asia, but certainly in most parts of Europe and Canada and the United States.

Mr. SAN NICOLAS. And is it fair to state that these inflationary pressures that are occurring globally are predominantly as a result of the normalization that is starting to occur from the economies getting back on their feet due to the pandemic?

Mr. POWELL. Yes. When you see something happening everywhere around the world, you look for common factors, and those would be just the reopening of the economy. COVID continues to impose supply-side constraints, so whatever demands there are run up against hard constraints, which is unusual for market economies, and you are seeing high inflation everywhere. Many of the same features that we are seeing here, you are seeing elsewhere, but different countries are feeling it to different degrees.

Mr. SAN NICOLAS. So just in that context, let's not hold back the American people by creating some kind of inflationary scare, making it seem like it is a fiscal policy issue. This is a global inflationary environment. Let's continue to take care of the American people, while we allow the experts who are testifying before us today to continue guiding us as we try and tackle inflation.

Moving on to Secretary Yellen, I want to first begin by recognizing some of your staff, J.J. Ricchetti and Arian Rubio, Special Assistants who have been working closely with our office. They help us to do our job in engaging Treasury and allow you to come here today and do your job, to be able to answer questions directly from us.

I just had one quick question, Secretary Yellen. My local governor is holding off on expending some resources that were provided under the local relief package. I think they are waiting to see what the final rule is on the spending of the local recovery funds. Is a final rule going to be materially different from the interim rule or can we expect it to be materially the same?

Secretary YELLEN. We are in the final stages of producing the final rule. It is undergoing review. We had thousands of comments and have tried to respond. Until that rule comes out, and we expect it to come out shortly, the interim rule applies and can be relied upon.

Ms. DEAN. The gentleman's time has expired, just as a courtesy. Thank you.

All Members are instructed, if they have not exhausted their questions, to submit them in writing for the record.

At this time, the gentleman from New York, Mr. Zeldin, is recognized for 5 minutes.

Mr. ZELDIN. Thank you, Madam Chairwoman. Thank you to Secretary Yellen and Chairman Powell for being here today. And thank you to Chairwoman Waters and Ranking Member McHenry for holding this hearing.

First, to start with you, Secretary Yellen, just now in response to Mr. Taylor's questioning, I believe you said that it is your position that the Build Back Better bill is fully paid for. Did I hear you correctly?

Secretary YELLEN. Let me be clear. We would agree with the CBO analysis that led to a score of a $367 billion deficit over 10 years, but CBO was explicit that their analysis did not include rev-

enue that would result from an $80 billion investment over 10 years in the IRS. And the Office of Tax Analysis issued a paper with our own estimate based on our data and information that we have from the IRS about the likely payoff from that, and we estimate that at $400 billion.

So, when we put together those two pieces of information, it is more than fully paid for.

Mr. ZELDIN. I appreciate you clarifying that. So, the Administration's position is that you believe that it is fully paid for by ramping up the amount of IRS agents that are out there by several tens of thousands and going after more Americans to try to get them to pay more in taxes. I believe the number is up over 80,000 more IRS agents, and we have some strong disagreement with regards to that proposal. I am hearing from a lot of constituents who don't want to see several tens of thousands of additional IRS agents added, to go after hard-working Americans across the country because we already have enough IRS agents out there to go after individuals. And they are also concerned with the proposal to be spying on bank accounts and transactions at low-dollar amounts.

Chairman Powell, you were asked a question with regards to—you were talking about inflation, and I just want to understand this correctly. You said that in the second half of next year, you believe that inflation will start coming down. Is that accurate?

Mr. POWELL. Our forecast—and that of many, I would say almost all forecasters—does expect that inflation will be coming down meaningfully in the second half of next year. That is an expectation, and it is a forecast.

Mr. ZELDIN. And just so that I understand, is that something with which you agree?

Mr. POWELL. I think it is likely, but I don't think—the point is we can't act as though we are sure of that. We are not at all sure of that. Inflation has been more persistent and higher than we have expected, and we have to use our policy to address the range of plausible outcomes, not just the most likely one, which is that one. That is the most likely but there are other possibilities, and we are well aware of that.

Mr. ZELDIN. And when you say that answer, I just want to understand that in the context of an additional question with regard to the Build Back Better bill. You were asked whether or not that would—what kind of an effect that would have on inflation, and you refused to comment on that. So my question is, the prediction that in the second half of next year, it is likely that inflation would come down, is that a prediction assuming that the Build Back Better bill is law or is not law, that the trillions of dollars is spent or not spent?

Mr. POWELL. It is really not our role to comment on fiscal proposals, indirectly or directly.

Mr. ZELDIN. No, that is not what I am asking. The prediction that inflation is going to go down in the second half of next year is either built on an assumption that there is going to be trillions of dollars spent or not spent.

Mr. POWELL. The principle—

Mr. ZELDIN. Which assumption was used in making that prediction?

Mr. POWELL. —driving assumptions would be these, that the goods inflation that we are seeing will subside because the supply chain problems will sort themselves out. At the same time, though, you are going to see rent inflation going up and you are going to see possibly—

Mr. ZELDIN. I think you might be misunderstanding me, Mr. Chairman.

Mr. POWELL. —pushing up.

Mr. ZELDIN. With all due respect, I am trying to understand whether or not—

Mr. POWELL. There will be a fiscal prediction. It will be in there. People will make different assumptions. But, of course, we will assume—at this point, we are assuming that something passes, but we do not know exactly what it is going to be. It is very hard to be precise, because again, we don't know what will pass.

Mr. ZELDIN. That leaves far more questions than answers with regards to the prediction. I yield back.

Ms. DEAN. The gentleman's time has expired.

The gentlewoman from Massachusetts, Ms. Pressley, who is also the Vice Chair of our Subcommittee on Consumer Protection and Financial Institutions, is now recognized for 5 minutes.

Ms. PRESSLEY. Thank you, Madam Chairwoman. The House just passed the Build Back Better Act. We are closer than ever to delivering overdue support for workers, for families, and for the economy. There is truly just so much for us to feel hopeful about.

Unfortunately, many Republicans are working overtime to distract from these historic accomplishments. Today, they speak about inflation and they speak about it without any nuance or any context, and they refuse to put forth serious solutions. They use their platforms to discourage people from getting vaccinated, which will only prolong pandemic-induced inflation. They spread lies that the Build Back Better Act will add to the deficit, despite 3 years ago enthusiastically passing Trump's tax break for the wealthy bill, knowing it would add $2 trillion to the deficit.

I am tired of this fear mongering and misinformation, so let's today, in this moment, set the record straight about the Build Back Better Act. Secretary Yellen, please answer yes or no to these questions wherever possible. Would providing universal pre-K and drastically cutting the cost of childcare have a positive impact on the economy?

Secretary YELLEN. Yes, I believe it would. It would promote higher labor force participation, and these investments in children would have a significant payoff, making them more successful and better-prepared to succeed in our economy.

Ms. PRESSLEY. And would making prescription drugs cheaper for seniors and families have a positive impact on the economy? Yes or no?

Secretary YELLEN. Yes, it would certainly cut the cost of living, especially for retirees who have been struggling with the cost of prescription drugs, but many others as well.

Ms. PRESSLEY. And would investing in more affordable housing have a positive impact on the economy? Yes or no?

Secretary YELLEN. Yes, I think that has been a very significant problem for decades and has made it exceptionally difficult, especially for lower-income families to manage in expensive parts of the country.

Ms. PRESSLEY. And would expansion of the child tax credit, a tax cut for the lowest-earning families have a positive impact on the economy? Yes or no?

Secretary YELLEN. Yes, and it has already done so. In the months after the child tax credit has been paid out we have seen a substantial decrease in the number of families reporting food insecurity.

Ms. PRESSLEY. So, zero Republicans—zero—voted for the Build Back Better Act, despite it containing substantial serious and popular solutions to combat inflation, supply chain issues, and financial hardship, solutions that are fully paid for. To try to justify their de novo, they are spreading lies about this bill. They say the bill will cause long-term inflation. Wrong. That is a falsehood. They say it will add to the deficit. Wrong. That is a falsehood. Anything to delay solutions and distract the public from their government spending hypocrisy.

Secretary Yellen, what are the real causes of inflation and how will policies that stop the spread of COVID-19 and support labor participation help to fight it?

Secretary YELLEN. To my mind, the real causes of inflation reflect the impact the pandemic has had on the economy. The programs that have supported income have kept demand at a solid pace and enabled our economy to grow the fastest of any economy, to bring down unemployment toward more normal levels. But because of the pandemic, demand shifted massively, away from services and toward goods. That huge demand for goods has resulted in massive supply chain bottlenecks that have crippled our ports and our transportation system and caused a shortage of semiconductors that have led to huge increases in the price of new and used vehicles.

And because of the pandemic, a substantial number of workers have not returned to the labor force, I believe because they are concerned about the health consequences of working in face-to-face type jobs and probably also because of childcare concerns.

Ms. PRESSLEY. Secretary Yellen, in the remaining time I have, I do want to give you the floor to talk about the revenue-raising provision that will pay for the Build Back Better Act investments. How will they both make—

Ms. DEAN. The gentlewoman's time—

Ms. PRESSLEY. Oh, I'm sorry. I yield back. My time is up.

Ms. DEAN. The gentlewoman's time has expired.

The gentleman from Ohio, Mr. Gonzalez, is now recognized for 5 minutes.

Mr. GONZALEZ OF OHIO. Thank you, Madam Chairwoman, and thank you to both Chairman Powell and Secretary Yellen for being with us today. And congratulations to Chairman Powell on your reappointment.

Secretary Yellen, I am going to start with you. Earlier you said, and I think you said it in different ways a few times, that when supply and demand get out of balance, you can have inflation, and

the demand side has accelerated while we still have supply chain bottlenecks. Fair?

Secretary YELLEN. The demand has been strong. Demand has also shifted away from services and toward goods, which has created huge problems, more than the aggregate level of demand.

Mr. GONZALEZ OF OHIO. Yes, ma'am. And the American Rescue Plan, which was a partisan bill that increased demand, which you testified to, did it do anything to alleviate supply issues?

Secretary YELLEN. It did not have substantial impacts on supply.

Mr. GONZALEZ OF OHIO. When we say that—and this is my frustration. For a year, a year plus, we negotiated in good faith, for bipartisan legislation to be targeted and appropriate with respect to our response to COVID-19. You all won the election. It is your prerogative to ignore Republican concerns. But you went forward with the American Rescue Plan, which we warned would increase inflation, specifically for the reasons the Secretary just said. It would increase demand and do nothing to alleviate supply chain bottlenecks. That is exactly what happened. You are set to repeat the exact same mistake with Build Back Better.

Chairman Powell, I want to commend you for retiring the term, "transitory," as it relates to inflation. My constituents have been complaining about it for over a year. There are concerns. One, inflation is particularly hard on low- and middle-income Americans, in particular those with fixed incomes. We all know that. It has been brutal for them.

And two, and I think this is the new risk, risk accumulates over time the longer rates are at zero, as anyone who invests money in discounts cash flows at a zero-interest rate can justify virtually any investment. As we have seen that, and various asset bubbles have built up over time.

I think the risk shifts. Now, I believe the risk is that we have let inflation run too hot for too long, and we are in need of a more sudden course correction, which you suggested yesterday. That being the case, what are you most concerned with when considering the ramifications of the taper on the market and the economy at large? What pockets of risk are you looking at as the taper begins?

Mr. POWELL. Let me just say, I think that the taper need not be a disruptive event in markets. I don't expect that it will be. It hasn't been so far. We have telegraphed it.

I think if you look at the state of the economy, look at where we are, look at the most recent run of data, you can see that the highly-accommodative policy that we have, even after the taper is done, it is really appropriate that we taper, and as I mentioned yesterday—

Mr. GONZALEZ OF OHIO. I agree.

Mr. POWELL. —in my view, it is appropriate that we consider, at the next meeting, tapering faster so that it wraps up a few months earlier.

Mr. GONZALEZ OF OHIO. Yes. I agree. I guess I would encourage you—and my concern, again, is we have seen asset bubbles accumulate over the course of the pandemic. Investors have done incredibly well. I think we should be tapering. I agree with that in a lot of ways on the monetary front. But I suspect that there is risk

building up and I just want to make sure that it is on the Fed's radar.

I want to shift to—I have 1 minute and 26 seconds to see if I can get this out. In recent months, Americans, unfortunately, have seen energy prices significantly increase, especially at the pump. Some people who talk on Twitter have claimed that this is due to greedy corporations and speculators driving up prices. Do you believe that is the reason for increased gas prices?

Mr. POWELL. Energy is a global market, and there are many, many factors at work there, I would say. It is a combination of very strong demand across-the-board, and supply-side factors too.

Mr. GONZALEZ OF OHIO. Not greedy corporations and speculators driving up prices, that is not accurate for why energy prices are high?

Mr. POWELL. Looking at this from an economic perspective, it is very strong demand in the face of what have been some supply blockages and a little bit of discipline on the part of the providers.

Mr. GONZALEZ OF OHIO. Thank you. I agree.

In the summer of 2020, the Federal Reserve updated its Statement on Longer-Run Goals and Monetary Policy Strategy to state that the Fed would seek to achieve inflation above 2 percent for some time period. Do you have any second thoughts on that, given that we have seen inflation persist for quite some time, and if we didn't change the framework, how would you potentially have responded differently throughout the pandemic?

Mr. POWELL. The sort of overarching fact of monetary policy in the last 15 years, and probably the next 15 years, is just that interest rates are significantly closer to the effective to zero, and in that world it is hard to support the economy and attain growth and maximum employment and 2 percent inflation. So, the framework was designed to address a situation in that.

Now, what we have here is an unique historical shock, which is the beginning of the pandemic, the middle of it, and the end of it, and a different situation and we have a different part of the framework that deals with that.

Ms. DEAN. The gentleman's time has expired.

Mr. GONZALEZ OF OHIO. Thank you. I will follow up in writing. Thank you.

Mr. POWELL. I would be glad to.

Mr. GONZALEZ OF OHIO. Thank you, Mr. Chairman.

Ms. DEAN. Thank you. The gentlewoman from Michigan, Ms. Tlaib, is now recognized for 5 minutes.

Ms. TLAIB. Thank you so much, Madam Chairwoman, and I would like to thank both of our witnesses for being here.

Chairman Powell, President Biden stated that with your renomination, you would use your authority to address the threat that climate change poses to our financial system. As you know, if we allow temperatures to rise another 2 degrees this century, we are surrendering the planet and our environment to corporate polluters, accepting, of course, the disruption to our agriculture, our trade, migration on a massive, unprecedented scale, and the devastating public health impacts. And Chairman, you should know this is so personal for me because I am seeing it firsthand in Michigan, where Wayne County has not met Clean Air Act standards

since 2013. This is the largest populated county in Michigan. And not only with record floods that have impacted families during the pandemic, come up 4 times alone in some households over the summer, it is devastating. We need to do something about it, and I know it directly impacts our economy.

Chairman Powell, can you outline precisely what your plan is to fulfill that commitment to address climate risk to our financial system?

Mr. POWELL. I would be glad to. The Fed has a couple of ways that we will address climate that are important, but they are not, by themselves, going to be enough, the first of which is just to supervise and regulate financial institutions, particularly the large ones, to make sure that they understand the risks that they are running and can manage them.

The second really is from a financial stability standpoint. Climate change has potentially significant effects on financial stability and also on the broader economy, so, we do a lot of research. Our researchers are some of the ones who go around the globe, who are doing the original research to understand the pathway of climate change through the financial system and the economy. And those are within our mandate to supervise firms and look after financial stability. We will be incorporating climate change very much into those mandates.

Ms. TLAIB. So you know, and I know you have heard it, that between 2016 to 2020, banks provided, what, $3.8 trillion in direct fossil fuel financing, with most of that investment coming from banking. Banks are holding companies under the Fed's supervision, and I know you are talking about oversight here. But the Acting Comptroller of the Currency, Michael Hsu, has announced that the OCC plans to issue supervisory guidance on climate risk by the end of the year.

Chairman Powell, does the Fed intend to join this guidance? Why or why not?

Mr. POWELL. I don't think we will join this specific guidance. We are very much tracking and in discussions with the OCC. I think we will move to certainly provide guidance, and I think we all want, all the agencies want to have consistent, or ideally, identical guidance. I don't think we will actually be in a position to join this specific guidance at this time but we will get there.

Ms. TLAIB. And you know the OCC will also begin examining how large banks are addressing climate risk as part of the examination, starting in 2022. So, does the Fed plan on conducting a similar assessment in 2022, and what is the Fed planning to do on assessing climate risk to banks face in 2022?

Mr. POWELL. In 2022, we are already deep into dialogue, and again, particularly with the largest financial institutions. That is really where a lot of the work is going on right now, ongoing dialogue with all of them. And by the way, they are doing the same thing we are doing, which is trying to understand the implications of climate change for their business model, for the things that they do. And also what we are thinking about is what is the appropriate supervisory approach, how do we do this, which tools do we use, for example, climate scenario—

Ms. TLAIB. Yes, and just on behalf of my residents, I hope dialogue turns into guidance and accountability.

Finally, I am glad you have allowed the leadership of other central banks—you joined the Network for Greening the Financial System last year. I really appreciate that. But, as Fed Governor Brainard has indicated, the U.S. still trails other countries in, "measuring, monitoring, and managing climate-related financial risk," and the Governor said, "We need to catch up."

They go on to say, Chairman Powell, about how far back we are in regard to having a much more active role. And so, Chairman Powell, the European Central Bank (ECB) has announced that climate risk will guide its monetary policy. Will the Federal Reserve do the same? Are you actually aggressively looking at taking this kind of approach?

Mr. POWELL. I am focused on the United States and our existing mandates.

Ms. TLAIB. Is that a no?

Mr. POWELL. Well, it—

Ms. TLAIB. Is it no, right now?

Mr. POWELL. It is sort of a broader question—

Ms. TLAIB. Maybe?

Mr. POWELL. —than a yes or a no.

Ms. TLAIB. They are saying, okay, we are going to use climate risk to guide our monetary policy.

Mr. POWELL. Okay. Narrowly, then, I would say we are not doing that now. I think that is something we will do in the longer run, but no, we are not doing that now.

Ms. TLAIB. Not now. Okay.

The ECB's initial supervisory review revealed that the bank faced material risks from climate risk, yet have failed to meet the supervisory expectations laid out by the regulator. Chairman Powell, do you have similar comprehensive information about how U.S. banks are positioned—

Ms. DEAN. The gentlewoman's—

Ms. TLAIB. I will submit the question in writing.

Mr. POWELL. We are developing that.

Ms. TLAIB. You are? Good.

Mr. POWELL. We are in the development phase on that.

Ms. TLAIB. Okay. Thank you.

Ms. DEAN. The gentlewoman's time has expired.

The gentleman from Texas, Mr. Gooden, is now recognized for 5 minutes.

Mr. GOODEN. Thank you. Secretary Yellen, I have a few questions. If Build Back Better becomes law, which earlier you stated it was paid for, and one of the tools for payment was enhanced collections from the IRS, if this does become law would you anticipate that more Americans will be audited by the IRS?

Secretary YELLEN. I would anticipate that many fewer Americans with incomes below $400,000 will be audited, that the IRS will have the resources to direct their audits in those places where we have every reason to believe that taxpayers are not paying what is due, that is, high-income Americans and complex partnerships and corporations where the sources of income are opaque and the audit rates have dropped to historically low levels. The auditing

will be focused in those areas. Those areas are what account for a $7 trillion tax gap over the next decade.

Mr. GOODEN. And do you think we need 87,000 new IRS employees for that?

Secretary YELLEN. The auditing staff of the IRS has declined. The skill level of the auditing force has declined substantially. It is critical to hire people who have the expertise to conduct these complex audits. But the hiring will also improve customer service. The customer service at the IRS has fallen to unacceptably low levels.

Mr. GOODEN. I will agree with you there. Thank you for those answers.

Back to inflation. In March, you said that fears that the Administration's $2-trillion relief bill could trigger a rapid rise in inflation were misplaced. And we heard earlier today that that was quite a large factor in where we are today with respect to inflation.

I realize you are selling this plan as great for the future and with calming these inflation fears, but isn't it difficult for us to accept perhaps, on my side of the aisle, that we are not going to just continue to kick the can down the road and make things worse when your predictions were so wrong back in February? Do you really not think that spending another several trillion dollars will—

Secretary YELLEN. First of all, we are talking about a decade. We are not talking about a single year. The spending from the American Rescue Plan, which was $1.9 trillion, was largely concentrated this year. Build Back Better is a decade-long plan. It is a small plan relate to the total size of the economy and GDP over a decade, and it is paid for. So, it does not involve an increase in deficits according to a combination of CBO and Treasury reckoning over the next decade, and beyond that, it puts in place investments that will continue to bring down deficits.

And finally, I would say it will improve the supply side of the economy, which is, in the long run, a factor that will tend to mitigate ongoing inflationary pressures.

Mr. GOODEN. Thank you. And Chairman Powell, would you agree with that analysis, that this increased spending, these multiple trillions of dollars over the next year, will that help us get to that point that we are at in the end of next year where you see inflation reducing?

Mr. POWELL. I'm sorry. We really don't comment on existing legislation. It is kind of out of bounds for us. This is what the CBO will do. They will make an estimate—

Mr. GOODEN. Just to confirm your discussion with Congressman Zeldin, your analysis that the inflationary numbers are anticipated to perhaps reduce at the end of next year is based on this Build Back Better passing?

Mr. POWELL. We have to see the final bill and how much of it is paid for. You have to look at the spending in the first couple of years. You have to look at exactly how much of it is paid for to really make a sophisticated judgment about that. But it is 10 years of spending. So, I am really reluctant to get pulled into commenting on something on which we don't really have the final facts.

Mr. GOODEN. Thank you. I yield back.

Ms. DEAN. The gentleman yields back. I now recognize myself for 5 minutes.

Welcome back, Secretary Yellen. Welcome back, Chair Powell. And Chair Powell, congratulations on your renomination as Fed Chair.

My colleagues on the other side of the aisle have spent a tremendous amount of time attacking the Build Back Better Act as wasteful spending that will increase the deficit and fuel inflation, as we have seen through this conversation. I, of course, disagree with that. Not only is this legislation paid for, but it makes critical, long-term, overdue investments that will improve productivity and address the supply chain bottlenecks, part of the cause of heightened inflation.

The Build Back Better Act critically makes investments close to more than $7 trillion, projected 10-year tax gap, that is largely due to tax evasion by the wealthy and by corporations. I am reminded of the quote by Benjamin Franklin, "There are only two things certain: death and taxes." However, we know, from reality, and Secretary Yellen you have spoken about this, that taxes are not certain for everybody, and it is time we made a fair, equal playing field.

So, rather than the boogeyman of 87,000 agents coming after hard-working Americans, could we be clearer? What are the ways that wealthy individuals and corporations fail to pay taxes, in some cases? It is not everybody. We know that. How do some avoid or fail to pay taxes, and that is what we are trying to go after.

Secretary YELLEN. The rates of compliance for income streams that have third-party reporting to the IRS, like wages and salaries, 95, 97, 98, something like that, percentage of income is reported and taxes are paid as due.

Ms. DEAN. Can you paint a picture—

Secretary YELLEN. That is not where the problem is; the problem is opaque sources of income, when individuals earn income that isn't wage and salary income, the IRS doesn't know about it. They have to rely on the honesty of the taxpayer to report what they have earned. They don't have additional sources of information. And for complex partnerships and for companies, similarly, the sources of income and amounts are opaque.

And if we had high auditing rates, that would probably promote more honest reporting. But audit rates have dropped to unbelievably low levels over the last decade. And so, the investment in the IRS to enhance its auditing capacity, not only will that directly enable greater tax collections but a lot of research shows that it will improve honesty in reporting in the first place when the odds of being audited rise.

Ms. DEAN. That would be valuable because as Treasury as estimated, the tax gap could be as high as $7 trillion over the next decade, in the future decade. How that much money is currently falling through the cracks, and we here, in Congress, wouldn't want to address that is staggering to me.

Chair Powell, in the remaining time that I have, when you appeared before this Committee in July, I asked you about the need for greater public and private investment. You talked about how investment raises the potential growth rate, increasing productivity,

and raising living standards. I also asked you about the impact of supply chain vulnerabilities on inflation, which you repeatedly testified to be one of the major drivers of inflation.

As part of the Build Back Better Act, I worked to include language to increase our investment in domestic manufacturing and support supply chain resiliency. Ultimately, this legislation took the form of authorizing $500 million for the use of the Defense Production Act for the purposes of supporting manufacturing right here.

Chair Powell, how would this kind of domestic investment in manufacturing address continued supply chain challenges and combat inflation?

Mr. POWELL. I am going to have to decline to answer. I do not want to get into commenting on particular aspects of this specific bill. It is just not our role. I assent that we do not have the capability to do it. It is just that we really have to respect that we are not part of fiscal policy. We do our jobs.

Ms. DEAN. I respect that. How about the fact, if we can encourage and create greater domestic manufacturing, not speaking of the legislation then, what would that do in terms of inflation?

Mr. POWELL. A significant part of the inflation that we are seeing is due to longer-length supply chains from Asia. So to the extent—as an actual matter, if you made things locally here, in this particular situation, you would see lower inflation. But by the time—

Ms. DEAN. Thank you, and I have to—

Mr. POWELL. —this will be passed—

Ms. DEAN. —gavel myself off because my time has expired. Thank you, Chair Powell.

The gentleman from Texas, Mr. Sessions, is now recognized for 5 minutes.

Mr. SESSIONS. Thank you very much, Madam Chairwoman. Madam Secretary, I want to, without trying to be too much, as it were, that we are fighting each other here over politics, I have found it very interesting that your remarks wanted to be in line with the Administration, of which you serve as a Cabinet officer, but it gets confusing for a Member of Congress, and I believe the American people, to speak directly to the fact, the case, or the truth that we decide.

You have used the words, "honesty in reporting," I believe 3 times today. You reference that this Build Back Better is being completely paid for, but then you put a caveat there, but CBO did not report it that way because of the revenue that might come in from whatever today we are hearing, 80,000 or 87,000 new IRS agents.

What am I, as a member of this committee, to take away as the position of the Treasury Department as they properly respond to questions from Members of Congress or the media about the truth of the matter? Are you in favor of the Build Back Better or the CBO score?

Secretary YELLEN. We respect the CBO and agree with the CBO analysis of those portions of the bill that CBO scored. CBO reported that over the next decade, the aggregate deficit resulting from the bill would be $367 billion.

Mr. SESSIONS. Yes, ma'am, and that—

Secretary YELLEN. But they also made clear—

Mr. SESSIONS. I don't want to argue with you, so are you suggesting—

Secretary YELLEN. That is correct, that it coincides—

Mr. SESSIONS. —do you think it is fair that you would, and the Administration would continue the dialogue, it is completely paid for, but—

Secretary YELLEN. I think that is completely—

Mr. SESSIONS. —the honesty—

Secretary YELLEN. —I am sorry, I—

Mr. SESSIONS. —in reporting is Congress looks at the CBO.

Secretary YELLEN. Congress has to look at the footnotes in the CBO report as well, and CBO made clear that their score did not include any revenue from additional IRS enforcement. They made that completely clear in their written report.

Mr. SESSIONS. Yes, ma'am.

Secretary YELLEN. And they have an estimate of what that would be, but they have also stated previously that their methodology assumes very little shift in the behavior of taxpayers. And the Treasury Department has its own analysis and their outside researchers who have analysis of what the impact of these IRS resources will be. Our estimate, Treasury's estimate, is it will generate $400 billion over 10 years. And if you combine that with CBO's estimate of the remainder, which is a deficit of 367, those two things come out in positive territory.

Mr. SESSIONS. So, you want a Rube Goldberg drawing, if this happens, then we, as the Administration, can say, and the President, with a masked face can say, "It is paid for." But, in fact, honesty in reporting is what ought to be.

I still would disagree with the gentlewoman. You are the Treasury Secretary. I am not. You are entitled to your opinion. I still think that because the honesty in reporting is necessary, it would be honest to say, "And CBO does not concur." Because I believe it is important to tell people, by and large, the truth. The truth of the matter is that you will be adding 87,000 net new employees to a department that may take 5 or 6 years to materialize.

Secretary YELLEN. That is—

Mr. SESSIONS. Another question please, ma'am. How many IRS agents—I apologize, I have exceeded my time. I will provide, in writing, a request to you, and I want to thank the chairwoman, for the time. Thank you.

Chairwoman WATERS. Thank you very much.

The gentlewoman from New York, Ms. Ocasio-Cortez, is now recognized for 5 minutes.

Ms. OCASIO-CORTEZ. Thank you, Madam Chairwoman, and thank you to Secretary Yellen and Chair Powell for being with us today.

One of the things that I also wanted to focus in on is the very important topic of climate change in terms of the Treasury and the Federal Reserve's role in that. The United States just returned from COP26 in Glasgow, where participating nations agreed to reduce carbon emissions in order to remain within the 1.5 degree Celsius benchmark, as acknowledged by the Paris Agreement.

The Financial Stability Oversight Council, or FSOC, recently released a report exploring the risks that climate change poses to our

financial system. And while it is the first time that FSOC has designated climate change as a threat to U.S. financial stability, I was disappointed to see that the report, which is intended to serve as a blueprint for Federal regulators, makes no mention of any timelines or policies needed to stay within that 1.5 degree Celsius target. As a matter of fact, the FSOC report, in discussing climate change, doesn't discuss the 1.5 degree Celsius target at all, and instead it focuses on general data disclosure and review.

Secretary Yellen, can you explain why the report fails to make mention of globally-acknowledged targets for climate to prevent further climate change degradation?

Secretary YELLEN. FSOC's mission and responsibility is to identify threats to the financial stability of the United States and to coordinate across regulatory agencies to make sure that they are addressed. Treasury is also involved with the Administration in trying to put in place policies—economic policies, tax policies, spending policies—that will address climate change itself and, of course, very substantial policies are included in Build Back Better, and the infrastructure plan also contains policies that address climate change and are oriented toward trying to meet our commitment to the 1.5 target.

Ms. OCASIO-CORTEZ. Thank you, Secretary Yellen. As a general note, I do think it is important that perhaps we consider the fact that there are substantially different financial risks between 1.5 degrees Celsius, 2 degrees, and beyond. But when we look at some of our partners around the world, Sweden's Riksbank will only purchase bond holdings from companies complying with their climate standards. The Swiss Central Bank has announced that they will exclude coal investments from its massive holdings. The European Central Bank conducts stress testing with respect to climate.

Do you believe that the United States is behind the rest of the world when it comes to mitigating the risk that climate change poses to our financial system and the commitments we are willing to make to do so?

Mr. POWELL. I take it you are asking me that question, or were you asking Secretary Yellen?

Ms. OCASIO-CORTEZ. Oh, I apologize. I was asking Secretary Yellen, but Chairman Powell, you are welcome to weigh in as well.

Mr. POWELL. Thank you. I am really focused on our domestic context and doing what we think is right under our laws and our authorities as the Fed, and I would say that principally what we are working on is regulation and supervision of the largest financial institutions, and also financial stability, more broadly.

Ms. OCASIO-CORTEZ. A May report from the International Energy Agency (IEA) found that new fossil fuel exploration extraction was incompatible with a 1.5 degree Celsius objective, and that, "There is no need for investment in new fossil fuel supply in our net zero pathway." And with respect to the U.S. mitigating the catastrophic impacts of essentially going beyond 1.5, potentially going beyond 2 degrees Celsius, do we agree—or, Secretary Yellen, do you agree with this assessment that we should consider phasing out investments in new fossil fuel supplies?

Secretary YELLEN. I certainly learned a lot from the IEA report and have no basis to question their judgment. As Chair Powell in-

dicated, the FSOC's mission and the Fed's mission is safety and soundness of financial institutions, and we don't have authority to tell institutions that they must pursue lending policies that support the Paris commitment. But it is very noticeable that at Glasgow, all of the major global financial institutions voluntarily committed to align their lending with the Paris commitments, and certainly, Treasury will be monitoring very closely their performance, and we are heartened to see these important commitments.

Ms. OCASIO-CORTEZ. Thank you very much.

Chairwoman WATERS. Thank you very much. The gentlelady's time has expired.

The gentleman from Oklahoma, Mr. Lucas, is now recognized for 5 minutes.

Mr. LUCAS. Thank you, Madam Chairwoman, for holding this hearing, and thank you, Chair Powell and Secretary Yellen, for appearing before the committee, and like my colleagues, Chairman Powell, I would like to congratulate you on your renomination for another term. I would acknowledge to you that I am not sure the President did you a favor, but thank you for being willing to do this again.

That said, let's talk about a number of issues, and I will try and roll through them in some sort of a concise fashion. Since the onset of the pandemic, the United States has added more than $5 trillion to its total national debt, standing at about $29 trillion. And as the Secretary has alluded to, apparently we need to raise the debt ceiling very soon to address that even. And that doesn't count the extra trillions that have gone on the Federal Reserve System's balance sheet. The U.S. is now set to exceed the debt-to-GDP ratio in a way not seen since the end of the Second World War.

Chairman Powell, speak to us from a macroeconomic perspective. When is the right time to prioritize the threat of U.S. debt rapidly outpacing economic growth? We have spent a lot of money in the last couple of years.

Mr. POWELL. And as I generally would say, as is appropriate, I think, for me to say in my role, the U.S. needs to get back on a sustainable fiscal path. The right time to do that is when the economy is strong, when the taxes are rolling in, when employment is high, and the right way to do it is to have a longer-term plan really to get the economy growing faster than the debt. By definition, it is unsustainable to have the debt ultimately growing faster than the economy, and we have that now.

Mr. LUCAS. Chairman, you and I were both young men in the Carter-Reagan period, under your predecessor, Chairman Volcker, when we went through an inflationary cycle that was even more horrendous than this, and the effort that it took to bring that period to a conclusion. I guess I would like to visit, for a moment, just about the fundamental issues, again, not addressing particular legislation, just the fundamental issues.

The amount of money, through congressional activity, that we put into circulation, and in 2020, I think in a bipartisan way we voted an incredible amount of money out of this place, because the wheels were coming off in the spring and summer of 2020 with COVID, and no one wanted to return to a 1929, 1941 period. So, we were willing to do whatever it took.

But that now brings us to this point of addressing inflation and getting a grip on that. Could you describe how—and I know you don't comment on legislation—policymakers at the Fed evaluate the results of these kinds of forecasts on the economy?

Mr. POWELL. What we are really looking at is so many things cause inflation, but really it is an imbalance between supply and demand. In the real economy, that is what it is about. And we actually see fiscal stimulus, that the stimulative aspect of fiscal policy is actually declining and will turn into a headwind next year. You have to distinguish between the change in the level, if you will. So, as deficits are coming down overall, you are going to see less in the way of fiscal stimulus to grow off of this high level of growth that we have. We had a very stimulative 2020, if that makes sense.

Mr. LUCAS. The buzz will lead to a hangover. Yes.

Mr. POWELL. What we are looking at is another strong year next year. Most forecasters see strong growth, but they also see the supply chains getting untangled, and they see the economy, the supply side rising to meet strong demand, and we see inflation coming down. Again, it is not a certainty. It is a forecast.

Mr. LUCAS. But the balancing act of policymakers, as the supply increases we still have to address the money that is available to chase those few resources or this process won't come to an end.

Turning to you, Secretary, we have discussed, several of my colleagues have, climate-related issues. I am concerned, coming from a district that produces lots of different forms of energy, and consumes massive amounts of different forms of energy, that when the majority can't pass a bill to outlaw certain forms of energy, and they can't pass a bill to tax it to death, that the route they are going to take is to use regulatory policy to strangle the capital available to those industries.

Could you touch on that for a moment? Is it the intention of the regulators to create standards such that banks cannot support any particular energy industry that may ask for capital, that may justify a loan?

Secretary YELLEN. As Chair of FSOC, I would say our focus is on financial stability, and the regulators, like the Federal Reserve, are focused on safety and soundness of institutions, and that means making sure they hold adequate capital to manage the risk.

Mr. LUCAS. There is a fascinating report from the New York Fed—

Secretary YELLEN. It is not a—

Mr. LUCAS. —that I hope you will review. With that I yield back, Madam Chairwoman.

Chairwoman WATERS. Thank you very much.

The gentleman from Illinois, Mr. Garcia, is now recognized for 5 minutes.

Mr. GARCIA OF ILLINOIS. Thank you, Madam Chairwoman, and of course, I thank you and the ranking member for convening this hearing. And, of course, thank you to our witnesses for joining us today to discuss the CARES Act oversight and our pandemic response. From when we passed the CARES Act until today, we have made remarkable progress. Our recovery has been impressive, es-

pecially compared to other countries, but it has been uneven and unequal as well. It is our job to fix that.

Secretary Yellen, I represent a working-class, immigrant district, including many families with children. In fact, it's one of the youngest districts in the country. The stimulus checks and the child tax credit were vital in my community. That is why I have fought so hard to ensure that mixed-status families and Individual Taxpayer Identification Number (ITIN) holders are finally able to access these vital benefits in the American Rescue Plan. More than half of Latino children have at least one immigrant parent, and at least 90 percent of these children are U.S. citizens, meaning they are entitled to these benefits, but they often can't get them.

The question for you—millions of ITINs expired at the end of last year, and the ITIN process is plagued by delays. Sometimes, the IRS holds onto original documents for months, a terrifying prospect for an immigrant family. What are Treasury and the IRS doing to streamline the application process for ITIN filers?

Secretary YELLEN. I can get back to you, or have my staff, with greater detail on this. But we have been trying to speed the delivery, for example, of the child tax payments to individuals who didn't file a return in either 2019 or 2020. Many ITINs may be in that category, and it has been an objective of our outreach to make sure that there are tools available to apply for those payments. We made an application available on mobile devices that is in Spanish as well, to try to make sure that they receive the payments they are entitled to, but I would be glad to get back to you with more detail on this.

Mr. GARCIA OF ILLINOIS. Thank you. I will take you up on that and follow up with you and your folks.

Data shows that Latinos are less likely than Whites to report receiving monthly child tax credit payments. This is disturbing, since Latino children are more likely to live in poverty. What can Treasury and the IRS do to monitor the success of the tax credit in the Latino community and what can Congress do to ensure that the tax credit reaches everyone that is entitled to it?

Secretary YELLEN. I would just say that we have tried, through an extensive outreach program, and working with Members of Congress as well, to make sure that there is awareness, especially in low-income and minority communities of eligibility for these payments, especially the child tax payments. And it is a question of getting the world out and making sure that families know how to apply.

Mr. GARCIA OF ILLINOIS. And do you think that Members of Congress have any other role to help ensure that everyone who is eligible gets it?

Secretary YELLEN. We have asked Members of Congress to help us get the word out. The IRS has had an extensive outreach program, but certainly Members of Congress can help publicize the availability of these benefits in their districts.

Mr. GARCIA OF ILLINOIS. Thank you, Secretary. I look forward to following up with you and, of course, working together to ensure that these benefits reach every community in this country.

Thank you, Madam Chairwoman. I yield back.

Chairwoman WATERS. Thank you.

The gentleman from Missouri, Mr. Luetkemeyer, is now recognized for 5 minutes.

Mr. LUETKEMEYER. Thank you, Madam Chairwoman.

Chairman Powell, congratulations on your renomination. I look forward to working with you over your next 4 years.

Also, Chairman Powell, the Fed oversees 753 financial institutions for compliance, with numerous measures related to the safety and soundness of the banking system. If one of those institutions chose to not follow a law passed by Congress or a rule the Fed promulgated, the Fed can take a myriad of enforcement actions including cease and desist orders, removal and prohibition orders, and monetary policies. In other words, if you break the law, there are consequences. Isn't that correct?

Mr. POWELL. That is correct.

Mr. LUETKEMEYER. Thank you. Secretary Yellen, do you believe the Fed should punish those entities when they decide not to follow the law? Do you believe that the Fed should punish those entities when they do not follow the law? Those banks, if they are not following the law?

Secretary YELLEN. Yes, if they don't follow the law.

Mr. LUETKEMEYER. Thank you. If you are going to hold the banks and society accountable to the law, shouldn't we also hold Cabinet members accountable when they do not follow the law?

Secretary YELLEN. Yes.

Mr. LUETKEMEYER. Thank you for that. Secretary Yellen, I am the ranking member of the House Small Business Committee, as you well know. The CARES Act put the Secretary of the Treasury in charge of the PPP program. You, by law, were supposed to show up by the end of April, April 23rd, which is now 222 days, over 7 months, and you will get to grace the threshold of that committee hearing room and give your report. Why do you continue to ignore and thumb your nose at the Small Business Committee and your job to adhere to the law, which you just said is important as a Cabinet member?

Secretary YELLEN. I believe that congressional oversight is very important, and that Congress and committees should be partners with us in serving the American people. I have, over the last 10 months, testified 12 times, and—

Mr. LUETKEMEYER. Madam Chairwoman, with all due respect, you are not answering my question. It is very specific. Yes, you have been able to accommodate every other committee on this Hill except the Small Business Committee, which you are required, by law, to show up to. Why are you not there?

Secretary YELLEN. Well, I—

Mr. LUETKEMEYER. Why are you not at the Small Business Committee?

Secretary YELLEN. —do have the ability to delegate responsibilities—

Mr. LUETKEMEYER. You have not delegated to anybody yet. There is nobody who has shown up for 222 days now, past—

Secretary YELLEN. I have offered my Deputy Treasury Secretary to testify before the committee, and—

Mr. LUETKEMEYER. Madam Secretary—

Secretary YELLEN. —that is something that I do have—

Mr. LUETKEMEYER. —reclaiming my time, with all due respect, you do not delegate an authority like that. You are required by law to show up. As you just said, multiple times, you have been to other hearings across the spectrum of the House and the Senate, and yet you refuse to come to the Small Business Committee. Is it beneath you to show up at our committee hearing, which is against the law, by the way?

Secretary YELLEN. —the Treasury has had, during the Biden Administration, essentially no role in the Paycheck Protection Program.

Mr. LUETKEMEYER. Well, that is a problem for the Biden Administration. That is not the problem of the—you should be doing your job.

Secretary YELLEN. It is the Small Business Administration that has responsibility—

Mr. LUETKEMEYER. No, it does not, Madam Secretary.

Secretary YELLEN. —for conducting—

Mr. LUETKEMEYER. Madam Secretary, with all due respect, it does not. The CARES Act gave the Secretary of the Treasury authority over that. I spent 2 or 3 weeks with the leadership team of this committee, working with Secretary Mnuchin, to put that plan together. It is in your purview. It is in your jurisdiction. It is your job to oversee that particular program, and it is your job to be able to report on it, as per the law. You just thumb your nose at the law over and over again. It can't continue.

As you just said, there should be consequences to Cabinet members who do not follow the law. Amazing. It is breathtaking.

I have about a minute left, so let me move on quickly here.

Chairman Powell, I am very concerned about the continued investment in China by all of the folks in this country, the investment folks. To me, it falls under monetary policy, but I will see what your opinion is here.

As we continue to throw more money in the economy, it seems like there is more money that is shifting over to China and investing in the Chinese bonds, they are investing in their companies, we are investing in their securities. Are you alarmed by this at all, by our investing in China and their economy, which would be competing against us and would have a direct impact on our economic ability to survive down the road?

Mr. POWELL. Representative Luetkemeyer, we really don't have a role in that. The SEC would have a role. If investors are investing in Chinese bonds and things like that, that would really be an issue for the SEC but not so much for us.

Mr. LUETKEMEYER. Are you concerned about it at all, the level of investment over there?

Mr. POWELL. I am mostly concerned about inflation and stable prices and maximum employment here at home.

Mr. LUETKEMEYER. Okay. Well, that investment, I think, would have a dramatic impact because of the money flowing in there versus it is flowing back here. To me, it would be able to set up our own supply chains over here to be able to be more helpful.

Thank you very much. I yield back.

Chairwoman WATERS. Thank you very much.

I would like to thank Secretary Yellen and Chair Powell for their testimony today.

The Chair notes that some Members may have additional questions for these witnesses, which they may wish to submit in writing. Without objection, the hearing record will remain open for 5 legislative days for Members to submit written questions to these witnesses and to place their responses in the record. Also, without objection, Members will have 5 legislative days to submit extraneous materials to the Chair for inclusion in the record.

With that, this hearing is adjourned.

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

A P P E N D I X

December 1, 2021

For release at
4:30 p.m. EST
November 30, 2021

Statement by

Jerome H. Powell

Chair

Board of Governors of the Federal Reserve System

before the

Committee on Financial Services

U.S. House of Representatives

December 1, 2021

Chairwoman Waters, Ranking Member McHenry, and other members of the Committee, thank you for the opportunity to testify today.

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

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

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

Pandemic-related supply and demand imbalances have contributed to notable price increases in some areas. Supply chain problems have made it difficult for producers to meet strong demand, particularly for goods. Increases in energy prices and rents are also pushing

inflation upward. As a result, overall inflation is running well above our 2 percent longer-run goal, with the price index for personal consumption expenditures up 5 percent over the 12 months ending in October.

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

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

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

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

Thank you. I look forward to your questions.

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

Facility	Announced	Closed	Maximum capacity[1]	Peak amount of assets[2]	Current amount of assets[2]	Treasury equity remaining[3]
Corporate Credit Facilities	Mar. 23, 2020	Dec. 31, 2020	750	14.3	0	0
Main Street Lending Program	Apr. 9, 2020	Jan. 8, 2021	600	16.6	13.5	15.7
Municipal Liquidity Facility	Apr. 9, 2020	Dec. 31, 2020	500	6.4	4.2	4.2
TALF	Mar. 23, 2020	Dec. 31, 2020	100	4.1	1.4	1.4

Note: The data are current as of November 24, 2021.

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

Source: For the amount of assets and Treasury equity remaining, see Federal Reserve Board (2021), Statistical Release H.4.1, "Factors Affecting Reserve Balances of Depository Institutions and Condition Statement of Federal Reserve Banks" (November 26), https://www.federalreserve.gov/releases/h41; the peak amounts of assets for each facility are based on the H.4.1 from the start of the corresponding facility until November 24.

Statement by

Janet L. Yellen

Secretary

United States Department of the Treasury

before the

Committee on Financial Services

U.S. House of Representatives

December 1, 2021

Chairwoman Waters, Ranking Member McHenry, members of the Committee: It is a pleasure to testify today.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

# # #

Congress of the United States
House of Representatives
Washington, DC 20515-3605

November 19, 2021

The Honorable Mayor Viola Lyles
Mayor of Charlotte
600 E Fourth St.
Charlotte, NC 28202

Dear Mayor Lyles,

I write in light of a recent budgetary decision by the City of Charlotte. As you know, on October 26, the Charlotte City Council approved a plan to spend $60 million of the roughly $71 million it received from the American Rescue Plan (ARP) Act.[1] The $71 million federal distribution comes on the heels of the approximately $154 million[2] the city of Charlotte received from the federal government under the Coronavirus Aid, Relief, and Economic Security (CARES) Act.

The federal support offered by the CARES Act and the ARP Act was conditioned on Congress's intent that federal funds pay specifically for pandemic-related endeavors. For example, section 601 of the CARES Act states that funding to local governments can only cover costs that "are necessary expenditures incurred due to the public health emergency" and were "not accounted for in the budget most recently approved as of the date of enactment."[3] Similarly, section 9901 of the ARP Act states that the fund may be used,"[to] Respond to the public health emergency or its negative economic impacts," "respond to workers performing essential work during COVID-19 public health emergency," "[f]or the provision of government services to the extent of the reduction in revenue due to the COVID-19 public health emergency," and "[t]o make necessary investment in water, sewer, or broadband infrastructure."[4]

With these statutory and regulatory guardrails in mind, it is important to highlight an area of concern brought to my attention of the City Council's spending priorities of federal taxpayer dollars in the consequences of the COVID-19 pandemic.

The City of Charlotte's Council published a graphic that is light on specifics and outlines that, for example, under the umbrella of "Community Vitality," $15 million from ARP Act funds will be spent on "Digital Inclusion" and "Grassroots Non-Profit Support."[5] I have personally heard from North

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[1] *COVID-19 Federal Stimulus American Rescue Plan Act of 2021,* City of Charlotte, October 26, 2021, *available at https://budd.house.gov/UploadedFiles/ARPA_Update.pdf*

[2] *CARES Act Fund Distributions for Small Business Recovery and Housing Relief,* City of Charlotte Internal Audit Department, September 29, 2021, *available at* https://charlottenc.gov/audit/FY2017%20Reports/22-05%20CARES%20Act%20Fund%20Distributions.pdf

[3] *Coronavirus Aid, Relief, and Economic Security Act,* Pub.L 116-136 (2020), Section 601, *available at https://www.congress.gov/116/plaws/publ136/PLAW-116publ136.pdf*

[4] *American Rescue Plan Act*, Pub.L 117-2 (2021), Section 9901, *available at* https://www.congress.gov/117/plaws/publ2/PLAW-117publ2.pdf

[5] Danielle Chemtob, *Here's how the city will spend $60 million in pandemic relief,* Axios Charlotte (Oct. 27, 2021), https://charlotte.axios.com/277669/heres-how-the-city-will-spend-60-million-in-pandemic-relief/.

Carolinians that the process to determine the allocations of the federal funding was rushed and lacked significant stakeholder or community input.

In light of these concerns, and in the interest of good governance and responsible oversight of federal taxpayer dollars, please provide my office with the following information:

1. Substantive details about both the total spending plan of any appropriated federal taxpayer dollars of CARES Act and ARP Act, with specific note of the Digital Inclusion and Grassroots Non-Profit Support categories, by the City of Charlotte.
    1. Explain how spending on these two identified initiatives will help the City of Charlotte recover from the immediate public health and economic consequences of the COVID-19 pandemic.
    2. Cite provisions of the CARES Act and ARP Act (including any associated federal guidance) that authorize spending on these projects.
2. A detailed breakdown of planned projects or awardees of any ARP or CARES federal funding as well as the criteria used by the City to award the funds.

Spending federal funds allocated specifically to help communities respond to and recover from the COVID-19 pandemic on non-germane city priorities is not permitted by law. It further erodes the public's trust of federal and local governments responsibly stewarding tax dollars. Your help in clarifying the City of Charlotte's actions would be tremendously helpful in assuaging concerns about any possibly misdirected federal funds.

Sincerely,

Ted Budd
Member of Congress

CC: The Honorable Dimple Ajmera
City Council Member at-large

The Honorable Edmund Driggs
City Council Member- District 7

The Honorable Julie Eiselt
Mayor Pro-Tempore

The Honorable Renee Johnson
City Council Member- District 4

The Honorable Gregory Phipps
City Council Member at-large

The Honorable Braxton Winston
City Council Member at-large

The Honorable Tariq Bokhari
City Council Member- District 6

The Honorable Larken Egleston
City Council Member- District 1

The Honorable Malcolm Graham
City Council Member- District 2

The Honorable Matthew Newton
City Council Member- District 5

The Honorable Victoria Watlington
City Council Member- District 3

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, DC 20551

February 14, 2022

The Honorable French Hill
House of Representatives
Washington, D.C. 20515

Dear Congressman:

Enclosed are my responses to the questions you submitted following the December 1, 2021,[1] hearing before the Committee on Financial Services. A copy also has been forwarded to the Committee for inclusion in the hearing record.

Please let me know if I may be of further assistance.

Sincerely,

Jerome H. Powell

Enclosure

[1] Questions for the record related to this hearing were received on December 23, 2021.

Questions for The Honorable Jerome H. Powell, Chair, Board of Governors of the Federal Reserve System from Representative Hill:

1) **The Federal Reserve's overnight reverse repurchase agreement facility (ON RRP) has evolved to become an important part of the Fed's interest rate control tool kit, but the sheer amount of money going through the repo markets does raise questions about the central bank's reliance on the facility, the size of the Fed's balance sheet, and the pace of tapering. The ON RRP peaked at $1.6 trillion on in September and could keep hitting all- time highs even as the Fed begins to wind down its monthly $120 billion purchases of Treasuries and agency mortgage-backed securities.**

   You previously said that you are "not concerned" with the volume at the ON RRP. Is this still your view, and do you believe it is working as designed? How do you anticipate the facility will be impacted by the Fed tapering its asset purchases or a rate hike?

The Overnight Reverse Repo Facility (ON RRP) facility is working as intended to support interest rate control by offering a readily available, risk-free, fixed-rate investment to a broad array of Federal Reserve counterparties that are active lenders in money markets. Usage of the facility has grown substantially since the second quarter of 2021, reaching a peak of $1.9 trillion on year-end and recently returning to around $1.5 trillion since the beginning of the year, in line with our expectations.

Over the past year, increasing reserve balances, due in part to Federal Reserve asset purchases, is one of the factors contributing to the current, elevated level of ON RRP usage. As such, the tapering of net asset purchases and the expected cessation of net purchases in early March should reduce upward pressure on usage due to this channel. However, there are other factors, discussed in my response to question 2 below, affecting ON RRP usage.

2) **The ON RRP volume appears to be driven by several factors, including a low-yield environment, the June increase in the overnight repo rate, continued large-scale asset purchases by the Fed, and Treasury drawing down its General Account balance. Are there any other factors that you attribute to the rapid rise of RRP usage this year or potentially moving forward? Which factors are most influential?**

Usage of the ON RRP facility is generally driven by spreads between money market rates and the ON RRP offering rate. Recently, downward pressure on money market rates has stemmed from a sharp decline in Treasury bills outstanding and the continued increase in reserves in the banking system, with the latter increase reflecting Federal Reserve asset purchases and the drawdown of the Treasury General Account (TGA). As reserve balances rose, some banks perceived a cost to expanding their balance sheets further and lowered their deposit rates, leading depositors and other investors to shift assets to money market funds (MMFs). As a result, MMFs have a larger amount of cash to invest given these inflows, but fewer investment options given the decline in Treasury bill supply. Additionally, these trends have put downward pressure on Treasury bill yields and overnight Treasury repo rates, making the ON RRP relatively more attractive.

Going forward, three primary factors—money market rates, Treasury bill supply, and the level of the TGA—will continue to affect ON RRP usage. Some of these factors are beginning to move in a direction that could reduce demand for the facility. First, with the debt limit resolution in mid-December, Treasury bill supply has increased recently, providing MMFs with more investment options. Second, also associated with the debt limit resolution in mid-December, the recent increase in the TGA has been reducing the amount of reserves in the banking system. That said, liquidity will continue to be high and bill supply is expected to remain low compared to the last couple of years, likely leading to elevated usage at the facility for some time. Of note, as the Federal Reserve's asset purchases are declining and anticipated to conclude in early March, this factor will no longer be contributing to increases in ON RRP usage.

3) **How do you anticipate a prolonged standoff over the debt limit would affect the repo markets and the ON RRP if the supply of Treasuries continues to shrink as we approach the "X Date"?**

The debt limit, and the resulting decrease in Treasury bill supply and the TGA, were important contributing factors to the increasing levels of ON RRP usage, especially over the latter half of 2021. Given the resolution of the debt limit and the currently increasing bill supply, these pressures should abate over the next few months. All else equal, this should curtail the increase in ON RRP usage; however, other factors affect usage as well, as discussed in my response to question 2.

4) **According to the SEC's Division of Investment Management, money market funds accounted for nearly 22% of total repo assets as of September 2020. Considering the repeated strain in the prime money market funds (MMF) market during recent times of considerable financial stress, do you believe there are any potential risks of the Fed effectively borrowing heavily from MMFs via reverse repos? If not, why?**

   Put another way, what do you believe would happen to the repo markets and the ON RRP if there was another run on prime MMFs in the event of significant market stress, like we saw in March 2020?

Amid financial stress, such as during the market turmoil in March 2020, investor demand for safe assets tends to increase. That increase in demand tends to put downward pressure on the market rates for those assets relative to the rate offered on the ON RRP. In that environment ON RRP usage tends to increase, thus mitigating the downward pressure on short-term rates and supporting effective policy implementation. Consistent with this basic mechanism, in March 2020, ON RRP usage increased significantly, largely because government MMFs, which were attracting very large inflows, were investing some of the cash that they were receiving at the ON RRP facility. Prime MMF usage of ON RRP also increased in March 2020.

The large redemptions from prime MMFs amid the March 2020 turmoil highlighted again the susceptibility of these funds to runs. The Securities and Exchange Commission (SEC) has primary jurisdiction over money market funds and has recently proposed a reform package intended to address underlying MMF vulnerabilities and reduce the likelihood that MMFs

contribute to future market stress. I defer to the SEC, as the primary regulator, to pursue the appropriate reforms.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, DC 20551

February 14, 2022

The Honorable Trey Hollingsworth
House of Representatives
Washington, D.C. 20515

Dear Congressman:

Enclosed is my response to the question you submitted following the December 1, 2021,[1] hearing before the Committee on Financial Services. A copy also has been forwarded to the Committee for inclusion in the hearing record.

Please let me know if I may be of further assistance.

Sincerely,

Jerome H. Powell

Enclosure

[1] Questions for the record related to this hearing were received on December 23, 2021.

Questions for The Honorable Jerome H. Powell, Chair, Board of Governors of the Federal Reserve System from Representative Hollingsworth:

1) **Chair Powell, we're all concerned that banking services in our communities not suffer interruptions or impairment, not just because of the pandemic directly, but also because of upheavals in hiring markets and other parts of local economies. A number of bank merger deals that were announced many months ago still await Federal Reserve approval, and these banks in the meantime have to deal with uncertainties for their customers, communities, and especially their employees. What will the Federal Reserve do to resolve these matters promptly and put an end to these uncertainties?**

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

The Board takes seriously its responsibility to review bank merger and acquisition (M&A) proposals under the relevant statutory factors set forth in the Bank Holding Company Act and the Bank Merger Act. These factors include the financial and managerial resources of the organizations involved and of the proposed combined organization; the convenience and needs of the communities to be served by the resulting institution; the Community Reinvestment Act performance of the involved depository institutions; the effectiveness of the parties in combatting money laundering; and the effects of the proposal on competition and financial stability. Every M&A application before the Board is reviewed carefully in view of each of these statutory factors. The Board will continue to focus on processing M&A applications in accordance with its statutory obligations.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, DC 20551

February 14, 2022

The Honorable Bryan Steil
House of Representatives
Washington, D.C. 20515

Dear Congressman:

Enclosed is my response to the question you submitted following the December 1, 2021,[1] hearing before the Committee on Financial Services. A copy also has been forwarded to the Committee for inclusion in the hearing record.

Please let me know if I may be of further assistance.

Sincerely,

Jerome H. Powell

Enclosure

[1] Questions for the record related to this hearing were received on December 23, 2021.

Questions for The Honorable Jerome H. Powell, Chair, Board of Governors of the Federal Reserve System from Representative Steil:

1) **Chair Powell, it is important to ensure that banking services in our communities do not suffer interruptions or impairment, not just because of the pandemic directly, but also because of upheavals in hiring markets and other parts of local economies. A number of bank merger deals that were announced many months ago still await Federal Reserve approval, and these banks in the meantime have to deal with uncertainties for their customers, communities, and especially their workers. What will the Federal Reserve do to resolve these pending matters promptly?**

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

The Board takes seriously its responsibility to review bank merger and acquisition (M&A) proposals under the relevant statutory factors set forth in the Bank Holding Company Act and the Bank Merger Act. These factors include the financial and managerial resources of the organizations involved and of the proposed combined organization; the convenience and needs of the communities to be served by the resulting institution; the Community Reinvestment Act performance of the involved depository institutions; the effectiveness of the parties in combatting money laundering; and the effects of the proposal on competition and financial stability. Every M&A application before the Board is reviewed carefully in view of each of these statutory factors. The Board will continue to focus on processing M&A applications in accordance with its statutory obligations.

U.S. House of Representatives
Committee on Financial Services
Hearing on Oversight of the Treasury Department's and Federal Reserve's Pandemic Response
Wednesday, December 1, 2021

Questions for the Record

Responses from Treasury Secretary Janet Yellen

Representative Vicente Gonzalez (D-TX-15)

1. The Emergency Capital Investment Program or ECIP was established in the Consolidated Appropriations Act of 2021 to encourage low- and moderate-income community financial institutions to bolster their efforts to support and engage with small businesses in their communities. I understand the deadline to submit an application for this program was September 1, 2021. I also understand that you have received over 200 ECIP applications totaling approximately $13 billion in investments, nearly $4 billion more than available.

    a. Do you have an update on the status of this program and when the Treasury would anticipate updating applicants on the status of their application for investment?

        - **Answer: On December 14, 2021, Treasury announced that it approved 186 applicants for investments of up to $8.75 billion in total. The list of approved applicants is publicly accessible online on Treasury's website. All applicants received notice of their approval and approved investment amounts. Treasury released draft legal agreements in the first quarter and is providing approved applicants with guidance on the steps necessary to close investments.**

Representative Chuy García (D-IL-04)

1. The American Rescue Plan (ARP) made economic stimulus payments available to U.S. citizens in mixed-status households who were otherwise eligible, correcting an injustice. To access these benefits, people without a Social Security number require a tax identification number, also known as an ITIN. As you know, under the 2015 Protecting Americans from Tax Hikes (PATH) Act, the IRS deactivated unused ITINs issued before January 1, 2013, and millions of ITINs expired in December of 2020. They will have to be renewed to be used on a tax return for 2021. An ITIN facilitates contributions of immigrants to tax base and serves as an important reminder of the ways in which immigrants voluntarily provide funds for important government functions.

   Yet the ITIN process is plagued with delays in processing and beset with practical problems, including the requirements for a paper application, the need to submit original documents that may be kept at the IRS for months, and sparsely distributed locations for filing. Perhaps as a result of these issues, the number of filings went down by nearly 60 percent from 2011 to 2014.

   I appreciated your offer to provide more information on the ways in which the Treasury is addressing the delay in processing applications for new Individual Taxpayer Identification Numbers (ITINs).

   a. I would like to know more about what the Department of Treasury and IRS are doing to simplify and streamline the application process for ITIN filers, and to reverse these troubling trends. Please provide additional information and specifics on the steps that the Internal Revenue Service intends to take to reduce the processing delays, streamline the application process, and reduce the considerable burdens and difficulties for applicants in completing this process.

      - **Answer: The IRS has worked throughout 2021 to process the backlog of ITIN applications and help ensure that citizens in mixed-status households receive important tax benefits. Today, these application processing times are comparable to processing times prior to the start of the COVID-19 pandemic.**

        Qualifying individuals who submit complete applications for an ITIN will receive a letter from the IRS assigning their ITIN usually within seven weeks (up to 11 weeks if requested during peak tax time (January 15 through April 30) or from abroad). If an ITIN applicant does not receive notification within the timeframes above, the applicant can call the IRS toll free line at 1-800-829-1040 to check on that application's status.

        ITIN applicants do not need to mail original documents to the IRS. In lieu of sending original documentation, applicants can submit certified copies of required documents from the issuing agency

instead. Also, applicants can instead use an IRS authorized Certifying Acceptance Agent or make an appointment at a designated IRS Taxpayer Assistance Center location. The IRS continues to actively recruit Certifying Acceptance Agents, with the goal of increasing the availability of individual ITIN services nationwide – particularly in communities with high ITIN usage.

Lastly, the IRS expanded and updated its ITIN application information provided on IRS.gov to help (i) applicants better understand the ITIN renewal process, and (ii) practitioners better serve and advise applicants throughout that process. For example, the IRS recently issued 20 new frequently asked questions (FAQs) regarding the ITIN renewal process.[1] Concurrent with that issuance, the IRS also released new information regarding changes made to the ITIN program.[2]

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[1] See ITIN Expiration Frequently Asked Questions (Jan. 4, 2022), available at https://www.irs.gov/individuals/itin-expiration-faqs.

[2] See New ITIN Acceptance Agent Program Changes (Jan. 5, 2022), available at https://www.irs.gov/individuals/new-itin-acceptance-agent-program-changes.

2. Ensuring that the Child Tax Credit (CTC) reaches all who are eligible is essential, and this will require both an inclusive implementation strategy and the real-time data to back it up. Our focus today is on pandemic response, and a critical part of this response is the IRS effort to get the Child Tax Credit to families. I commend the efforts at Treasury to act quickly and deploy the disbursements of millions of dollars through the Economic Impact Payments and the Child Tax Credit. Indeed, the improvements to the CTC in 2021, which should be permanently refundable and include ITIN-holding children as the House Build Back Better Act does, make it one of our nation's most powerful poverty-reducing tools. This is key for Latino children, 54% of whom have at least one immigrant parent.

   For example, when deployed effectively, the CTC has the potential to cut Latino child poverty by more than one-third. This is important, as Latino children are 26% of all children in the U.S., but 41% of those living in poverty. Yet recent survey data show that Latino respondents are less likely to report claiming the CTC (64% among tax filers), compared with white and Black respondents (76%). Moreover, Latinos (61%) are less likely than whites (67%) to report receiving monthly CTC payments. To understand the equity impact of these policies, the Treasury would need to collect and validate the data on who is or is not getting the payments.

   The IRS currently does not collect these variables on tax forms, so it will need to use proxy datasets to model this information and validate these data.

   a. What are the Treasury and IRS doing to monitor the impact of the CTC on the Latino community, and what would you need from Congress to ensure that the Department has adequate resources to provide data (using proxy data) on race and ethnicity regarding who is accessing the child tax credit?

      - **Answer: As you noted above, a permanently expanded CTC would substantially cut child poverty across all racial and ethnic groups. Treasury is working to develop methods to conduct equity analyses of the tax system.**

        In December 2021, Deputy Secretary, Wally Adeyemo, and Assistant Secretary for Tax Policy, Lily Batchelder, described these efforts, including (i) an examination of Treasury's and the IRS's implementation of several rounds of stimulus payments, and (ii) Treasury's work to develop a general and reliable empirical methodology for analyzing the racial/ethnic equity implications of tax policy and tax administration questions.[3]

        In 2022, Treasury continues to build upon this important work through Office of Tax Policy initiatives, as well as cooperative efforts

[3] See Treasury Department, Featured Stories: Advancing Equity Analysis in Tax Policy (Dec. 14, 2021), available at https://home.treasury.gov/news/featured-stories/advancing-equity-analysis-in-tax-policy.

with the Census Bureau, that, if successful, will contribute to our understanding of the effects of the Earned Income Tax Credit and CTC across demographics. Thus far, we have observed the enormous positive impact of an expanded and advanceable CTC on many of America's most vulnerable families, thanks to the American Rescue Plan's expansion.

The President's Budget for FY 2022 includes additional resources to sustain Treasury's ongoing work on the equity analysis of tax policies

3. The planning for the upcoming tax season is well underway, and millions of non-filers who have not yet claimed or received the Child Tax Credit remain eligible for the full benefits should they claim it prior to the close of tax season.

    a. Please outline the plans of the Department and IRS to facilitate claims for the CTC by non-filers ahead of the upcoming tax filing season, including by describing the timing and communications effort around a simplified portal for non-filers, and please describe in detail the lessons learned by the IRS in conducting outreach to non-filers thus far and how best to do that, and last, specifically identify and describe how those lessons will be applied in the coming months as the effort continues.

        - **Answer: Through CTC outreach efforts, Treasury and the IRS have learned valuable lessons on how best to (i) encourage and facilitate the ability of individuals to provide necessary information to the IRS to receive monthly payments, and (ii) ensure that those payments reach those individuals in the quickest and most secure way possible. Importantly, our sustained outreach efforts have provided us with insights on how to provide tailored communication approaches to our Nation's diverse families, as well as how to most effectively support efforts by local organizations to promote this tax benefit in low-income and other traditionally underserved communities. These lessons have been applied in numerous efforts, including through the following:**

            - **<u>Responsive Information Materials</u>: Throughout 2021, the IRS updated its CTC webpage[4] to address specific questions and concerns raised by families and community leaders. In particular, the IRS added several frequently asked questions (FAQs) to respond to CTC-related questions concerning payment-calculation, shared-custody, immigration, and several additional topics.**

            - **<u>Hands-on Help</u>: To reach families who likely would not access the CTC webpage, the IRS worked with non-profits and advocacy groups to host virtual and in-person "AdvCTC Free Tax Prep Days" in several cities across the Nation. Through these events, the IRS and its partners directly assisted individuals and families in filing a 2020 Federal income tax return and signing up for advance CTC payments.**

            - **<u>Partnerships with Community Leaders</u>: In addition, the IRS worked closely with homeless organizations, food banks, social**

[4] <u>See</u> 2021 Child Tax Credit and Advance Child Tax Credit Payments Frequently Asked Questions (Jan. 11, 2022), available at https://www.irs.gov/credits-deductions/2021-child-tax-credit-and-advance-child-tax-credit-payments-frequently-asked-questions.

service groups, and other community leaders that interact on a daily basis with families who would most benefit from the CTC and other tax benefits. In addition to helping eligible families sign up to receive advance CTC payments, these organizations helped provide families with a safe and secure location to receive their monthly payment checks.

In the upcoming months, Treasury and the IRS will continue to leverage the lessons learned and initiatives described above to help ensure that all eligible families claim the remaining amount of their CTC and other available tax benefits on their 2021 Federal income tax return.

- **Information Materials for the 2022 Filing Season: The IRS will release more than 60 CTC FAQs, and other tax credit information resources, that specifically address the 2022 tax filing season. Many of these materials will respond to questions that we have received from individuals and community leaders during 2021 and into 2022.**

- **VITA and TCE Help: In preparation for the 2022 tax filing season, Treasury and the IRS have coordinated with its Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) partners to develop strategies to help ensure that eligible families receive all of the tax benefits for which they are eligible. These planning efforts leverage the feedback that Treasury and the IRS continue to receive on how best to encourage and facilitate eligible individuals to engage VITA and TCE during the 2022 tax filing season.**

- **Partnerships with Community Leaders: The IRS will continue to work with homeless organizations, food banks, social service groups, and other community leaders throughout the 2022 tax filing season to encourage all eligible individuals and families to file a return – regardless of whether they have a Federal income tax filing obligation. During the 2022 tax filing season, these partnerships will provide Treasury and the IRS with an invaluable source of information, which will inform continuing adjustments to our efforts to ensure that all individuals and families receive the tax benefits for which they are eligible.**

Representative Nikema Williams (D-GA-05)

1. As our economy rebounds from an unprecedented pandemic, part of our road to recovery is getting our products moving.

   Remember the beginning of the pandemic when our stores were running out of hand sanitizer and toilet paper left and right? "Supply chain shortages" have affected our lives ever since. Empty shelves at the grocery store. Cars few and far between at dealerships. Taco Bell orders missing mild sauce – that one is from personal experience!

   So, how did we get here? A pandemic combined with years of underinvestment in our supply chain infrastructure, from our roads and bridges to our ports.

   This problem has long been in the making. But under President Biden, we're addressing it head on and we finally got that Infrastructure Week!

   a. Secretary Yellen, how can investing in something like a port ensure products are delivered faster and costs are kept down for middle class families? How does the Bipartisan Infrastructure Law fit into our continued economic recovery?

      - **Answer: As you noted, the bipartisan Infrastructure Investment and Jobs Act (IIJA) devotes significant resources to improving our transportation infrastructure, including ports, rails, and highways. Over time, expanding ports and replacing decaying bridges will make it faster and cheaper for businesses to deliver goods to customers. As a result, productivity increases and prices fall. Both the bipartisan Infrastructure Investment and Jobs Act and Build Back Better can meaningfully increase economic potential and reduce price pressures in the medium-term.**

2. The Build Back Better Act has always been about keeping costs down for middleclass families, whether it's lowering the costs of things like childcare, housing, and prescription drugs – or continuing to shore up our supply chain.

   The Build Back Better Act passed by the House will build on the infrastructure package's work by investing $10 billion in the strength and resilience of our supply chains. This investment will support technological advances and domestic manufacturing.

   a. Secretary Yellen, using this investment as an example, how critical is passage of the Build Back Better Act to ensuring the products people need are available, and at an affordable price?

      - **Answer: Our supply chains have been stretched by the pandemic due to a rapid shift in consumer demand from services to goods. Even before the pandemic, the Biden Administration recognized that our supply chains were vulnerable, with too many critical products manufactured predominately overseas as were many masks and medical equipment at the start of the pandemic. Build Back Better will help strengthen our supply chains in the medium term to meet the challenges of future pandemics, climate change and other disruptions.**

Representative Barry Loudermilk (R-GA-11)

1. Secretary Yellen, as you know, the Treasury Department has issued an interim final rule to implement the Coronavirus State Fiscal Recovery Fund and the Coronavirus Local Fiscal Recovery Fund under the American Rescue Plan Act. However, I have heard from local governments in my district that they are not able to move forward with using the funds for specific projects because they still need clear, detailed, final guidance on how the funds can and cannot be used.

    a. When will final guidance be issued?

        - **Answer: Treasury issued the final rule for the State and Local Fiscal Recovery Funds program on January 6, 2022.**

Representative Ted Budd (R-NC-13)

1. On October 26, the Charlotte City Council approved a plan to spend $60 million of the roughly $71 million it received from the American Rescue Plan Act (ARP).[5] The $71 million federal distribution comes on the heels of the approximately $154 million[6] the city of Charlotte received from the federal government under the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The City of Charlotte's Council published a graphic that shows $15 million from ARP funds will be spent on "Digital Inclusion" and "Grassroots Non-Profit Support."[7] The federal support offered by the CARES Act and the ARP Act was conditioned on Congress's intent that federal funds pay specifically for pandemic-related endeavors.

    a. In light of these concerns, and in the interest of good governance and responsible oversight of federal taxpayer dollars, is the Treasury Department working on guidance to clearly specify how states and localities may spend these funds to ensure they are used to best address the public health emergency?

        - **Answer: Under the Coronavirus State and Local Fiscal Recovery Funds program, recipients may use funds to respond to the public health emergency or its negative economic impacts, among other eligible uses. Treasury provided clear rules to states and localities on eligible and ineligible uses of funds in the interim final rule, which was released on May 10, 2021. On January 6, 2022 Treasury released a final rule after a months-long public comment process and dialogue with stakeholders. Treasury continues to monitor recipients through the reporting process and other channels for compliance with its rules and guidance.**

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[5] *COVID-19 Federal Stimulus American Rescue Plan Act of 2021,* City of Charlotte, October 26, 2021, *available at https://budd.house.gov/UploadedFiles/ARPA_Update.pdf*

[6] *CARES Act Fund Distributions for Small Business Recovery and Housing Relief,* City of Charlotte Internal Audit Department, September 29, 2021, *available at* https://charlottenc.gov/audit/FY2017%20Reports/22-05%20CARES%20Act%20Fund%20Distributions.pdf

[7] Danielle Chemtob, *Here's how the city will spend $60 million in pandemic relief,* Axios Charlotte (Oct. 27, 2021), https://charlotte.axios.com/277669/heres-how-the-city-will-spend-60-million-in-pandemic-relief/.

2. A signature policy in President Biden's Build Back Better (BBB) Act is the dramatic expansion of the IRS and the agency's ability to monitor transactions to crack down on tax evaders. Reports show that President Biden has abused tax loopholes since as early as 2017 by routing income through S-Corps and could potentially owe up to $500,000 in payroll taxes[8] all while taking out a lease on a mansion in Virginia during that same period.

    a. With your agency's presumed enhanced authority to go after tax evaders, following passage of the BBB, will you commit to audit the President's financial discrepancies before you use any new authority and resources in the Treasury Department to keep tabs on the financial activities of everyday Americans?

        - **Answer: The President is committed to clamping down on tax loopholes in current law, and the Administration's Greenbook, as well as the pending BBB Act, proposed closing the Self-Employed Contributions Act (SECA)/Net Investment Income Tax (NIIT) loophole that allows pass-through business owners to escape tax, ensuring that all high-income taxpayers will be subject to either the SECA or the NIIT tax.**

          Beyond this commitment to closing tax loopholes, the Administration is also eager to provide the IRS with the resources they need to do their job: providing service to American taxpayers, processing tax returns in a timely manner, and ensuring improved compliance with the nation's tax laws. For too long, the IRS has gone underfunded, resulting in a very large "tax gap" of uncollected tax revenues as well as unanswered phones and lagging customer service. The Administration's proposed investments in the IRS are long overdue.

[8] https://www.scribd.com/document/527108728/Updated-Memorandum-IRS-Audits-of-the-President-S-Corporations-And-Reasonable-Compensation-to-S-Corporation-Shareholder-Employees#download&from_embed

Representative David Kustoff (R-TN-08)

1. Section 138101 of the Build Back Better Act imposes a 15% minimum tax on certain tax-exempt bond interest. This tax would apply to roughly $1 trillion of tax-exempt municipal bonds. State and local governments, as well as industry stakeholders, are very concerned that this provision will make it more expensive for them to raise the capital needed for important projects. The National Association of State Auditors, Comptrollers, and Treasurers, a bipartisan organization, recently sent a letter to Congressional Leadership opposing this provision.

    a. Why is the Biden Administration pushing for policies that will make it more costly for state and local governments to finance important public projects?

    b. Wouldn't these additional costs be ultimately passed on to taxpayers?

    c. Is the Biden Administration open to revising these provisions?

        - **Answer: The municipal bond market is very large, and only a small share of municipal bonds is held by companies that are likely to face corporate minimum tax liability. Due to the very small share of the overall stock of municipal bonds that is held by such companies, we expect the overall effect on the municipal bond market to be quite small. Nonetheless, we remain committed to working with Congress on solutions that could address this issue.**

          The corporate minimum tax affects only the largest, most profitable companies. It does not affect pass-through businesses, and it does not reach any businesses that report less than $1 billion in earnings to their shareholders. Treasury estimates suggest that 300-400 firms report over $1 billion in earnings in a typical year. Of those 300-400 firms, Treasury estimates suggest that approximately 140-200 would pay corporate minimum tax under this regime.

          The corporate minimum tax mostly targets companies that tell their shareholders one thing, while telling the IRS something else. Companies that are highly profitable for financial reporting purposes should contribute tax payments to help support the public investments that have made them so profitable. Ports, roads, the education system, and strong institutions are all fundamental to company success.

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