Ranking Member Pat Toomey (R-Pa.)
Opening Statement
Full Committee Hearing: Nomination Hearing
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Thank you, Mr. Chairman.

Governor Brainard and Ms. Thompson, welcome. You both have very extensive experience in your respective fields. And I commend you for your commitment to public service.

Governor Brainard has been nominated to serve as Fed Vice Chair. The Fed's been granted significant independence to isolate it from political influence. However, Congress has given the Fed very narrowly-defined monetary and regulatory missions.

First, the Fed's been tasked with conducting monetary policy to promote stable prices and maximum employment. But the Fed's recent actions have failed to maintain price stability.

Last year, Governor Brainard repeatedly insisted that inflation was transitory. We have now had nine consecutive months where inflation has been more than two times the Fed's 2% target. That makes it pretty clear that inflation is not transitory. Yesterday's CPI release of 7.0%—the highest in 40 years—confirms that.

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

I appreciate that the Fed has pivoted towards normalizing monetary policy to tackle inflation. But the Fed must also learn from its mistakes.

That begins with the Fed's new monetary policy framework, of which Governor Brainard was an author and an outspoken advocate. The framework subordinated the Fed's price stability mandate to try and maximize employment by allowing inflation to run hot.

Under it, the Fed looked beyond employment as a whole to consider whether employment was "broad based and inclusive." What this meant was the Fed would sacrifice stable prices to see if it could achieve higher employment gains in certain demographic groups.

As Governor Brainard explained last year, the Fed should look at employment numbers on a “disaggregated basis” and use monetary policy to narrow employment gaps between different “racial and ethnic groups.” This framework would keep in place an inflation tax on all Americans while the Fed decided which sub-groups of people should have faster job growth over others.

The problem is monetary policy can never equalize employment rates amongst different groups. In the end, the Fed would run the risk of failing on both fronts of its dual mandate because you need stable prices to achieve a strong economy and maximum employment. Given this, the Fed should reevaluate its new framework.

The Fed also has the mission of monitoring the safety and soundness of certain financial institutions. Under Chairman Powell, the Fed enacted modest, sensible reforms that reduced regulatory burdens and helped spur economic growth. But Governor Brainard was the sole dissenter over 20 times on regulatory matters, an unprecedented number at the Fed.

For example, she argued that the Fed’s reforms of capital, liquidity, and stress tests for smaller, less complex banks would “weaken the safeguards at the core of the system.” Yet, even though the economy nearly collapsed at the start of the pandemic, the banking system emerged exceptionally well-capitalized and served as a source of strength for the economy, demonstrating the sensibility of these reforms.

In addition to opposing these reforms, Governor Brainard has urged the Fed to take an activist role on global warming, which is beyond the Fed’s expertise and mission. According to the New York Times, she has “endorsed the use of supervisory guidance – the Fed’s recommendations to banks – to encourage financial institutions to curb their exposures.”

I’m particularly concerned that she has advocated for the Fed to shape environmental policy through so-called climate scenario analysis. Not only does the Fed lack expertise in environmental matters, but there is no reason to believe that global warming poses a systemic risk to the financial system.

As I have noted before, we haven’t found a single bank that has failed in the modern era due to a severe weather event. There is a “transition risk” for banks associated with global warming, but it's political and regulatory in nature. It's the risk that unelected bureaucrats will attempt to impair the value of energy-related assets by cutting-off credit to energy companies.

This isn't about whether climate change is a significant threat to our society. It's about the fact that climate policymaking requires tradeoffs between costs and benefits. These are inherently political decisions, which is why they belong firmly in the domain of officials who are elected and directly accountable to voters.

Now turning to Ms. Thompson. She has been nominated to serve as the Director of the FHFA, where she has had a busy six months as Acting Director.

In that time, she has proposed reductions in capital requirements for Fannie Mae and Freddie Mac, suspended restrictions on the GSEs' acquisitions of high-risk loans, required the GSEs to develop plans to further what Democrats call "racial equity," but what is really just affirmative action in the housing space, and increased the GSEs' affordable housing goals. Unfortunately, she hasn't prioritized ending the GSEs' conservatorships.

I'm concerned the administration is seeking to use FHFA and the GSEs to take on more risk for taxpayers and expand affirmative action into housing. That makes Ms. Thompson's nomination—notwithstanding her extensive experience—a referendum on the administration's radical housing policy.

This policy contemplates more mortgages for higher risk borrowers, re-purposing the GSE as instrumentalities of social policy, and a disappointing embrace of the failed GSE model. In a break from decades of bipartisan housing finance reform efforts, this administration is using the power of the GSEs' conservatorships to command and control a huge swath of the economy.

We are now asked to ratify this radical housing policy, and to take ownership of the bailouts and foreclosures that will likely follow. Especially given where we might be in the housing cycle, we should be reluctant to do so.

Mr. Chairman, I look forward to hearing from today's nominees.