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Opening Statement
Full Committee Hearing: The Semiannual Monetary Policy Report to the Congress
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Thank you, Mr. Chairman.

The economy has come roaring back from COVID. GDP is above its pre-pandemic level, and the Fed forecasts GDP will grow by a robust 7% this year. The unemployment rate is already at 5.9%, which the Fed expects to fall to 4.5% by the end of the year.

To put that in context, the average unemployment rate for the 20 years before the pandemic was 6%. With these conditions, the Fed's rationale for continuing negative real interest rates and $1.4 trillion in annual bond purchases is puzzling.

The Fed's policy is especially troubling because the warning siren for problematic inflation is getting louder. Inflation is here, and it's more severe than most—including the Fed itself—expected.

For the third month in a row, the Consumer Price Index was higher than expectations. Core CPI, which excludes volatile categories like food and energy, was up 4.5 percent in June—the highest reading in almost 30 years. And to be clear, this is beyond so-called base effects: the two-year annual change in core CPI was at a 25-year high.

With housing prices soaring—in many places to unaffordable levels—I'm led to ask: why on earth is the Fed still buying $40 billion in mortgage-backed bonds each month?

Although the Fed assures us that this inflation is transitory, its inflation projections over the last year do not inspire confidence. Last June, the Fed projected that PCE—one standard measure of inflation—would be 1.6% for the 12 months ending 2021. Then in December the Fed revised that figure up to 1.8%. And now the Fed's most recent PCE forecast for 2021 year-end is 3.4%—more than double what the Fed thought inflation would be a year ago.

But in coming months, the Fed is almost certain to revise that prediction upward—again—because so far this year PCE has risen by 6.1% on an annualized basis. For the rest of the year, inflation would need to be nearly zero for the Fed's latest projection to be proven correct.

I'm concerned that the Fed's current paradigm almost guarantees that it will be behind the curve if inflation becomes problematic and persistent—for three reasons.

First, the Fed has been consistently and systematically underestimating inflation over the past year.

Second, the Fed has announced it will allow inflation to run above its two percent target level—it's already well above 2%.

Third, the Fed insists the inflation we're experiencing now is transitory, despite the fact that recent unprecedented monetary accommodation has certainly caused the inflation we're witnessing.

But since the Fed has proven unable to forecast the level of inflation, why should we be confident that the Fed can forecast the duration of inflation? You can only know that something is, in fact, transitory after it ends. What if it isn't?

By the time the Fed knows that it's gotten it wrong, if it does get it wrong, we could have a big problem on our hands. As past experience shows us, it's very difficult to get the inflation genie back in the bottle once she is out.

The Fed may have to respond by raising interest rates much more aggressively to rein in significant inflation. Doing so would have severe economic consequences.

The Fed's current monetary approach seems based on the misguided premise that it must prioritize maximum employment over controlling inflation. Employment policies enacted by Congress are inhibiting our ability to get back to maximum employment. But it's not the Fed's job to attempt to offset flawed policies at the expense of its price stability mandate.

When the Fed subordinates its price stability mandate to try and maximize employment, the Fed runs the risk of failing on both fronts because you need stable prices to achieve a strong economy and maximum employment. This is not a partisan argument. Prominent Democrat

economists, including President Clinton’s Treasury Secretary Larry Summers and President Obama’s CEA Chair Jason Furman, have expressed their concerns about the risk of rising inflation.

I’d like to end by acknowledging the crucial role played by the Fed in our economy. The ability to direct interest rates and control the money supply is extraordinarily important. As a result, Congress has given the Fed a great deal of operational independence to isolate it from political interference.

However, Congress also gave the Fed narrowly-defined monetary mission. I’m troubled by the Fed, especially the regional Fed banks, misusing this independence to wade into politically-charged areas like global warming and racial justice.

I’d suggest that instead of opining on issues that are clearly beyond the Fed’s mission and expertise, it should focus on an issue that is in its mandate: controlling inflation. If it doesn’t, the Fed will find that its credibility and independence were also “transitory.”