

Opening Statement  
Senator Thom Tillis (R-NC)  
United States Senate  
Committee on Banking, Housing, and Urban Affairs  
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Thank you, Mr. Chairman and welcome Chairman Powell. When you testified before this Committee in March, inflation was at a 40-year high, and Federal Reserve regional banks were stonewalling reasonable requests for information about their activities from Banking Republicans. Unfortunately, neither situation has improved.

Let's begin with inflation. Inflation is even higher now than when we saw you in March, with CPI up 8.6% per year—a new 40-year high. Getting inflation under control is critical because American families are being squeezed everyday by rising prices and mounting costs. Also critical to any discussion we have on inflation is an understanding of what served to turbo-charge it.

In March of 2021, the U.S. economy – as measured by a range of economic factors – was well on its way to recovery. Unemployment was 6% – down from its pandemic-worst of nearly 15% – and continuing to make steady monthly improvements towards a tighter labor market. In fact, 18 states already had unemployment rates below 5%, the often-cited threshold used to identify a labor market at very close or full capacity. Likewise, consumer spending had recovered and was actually above pre-pandemic levels by 4.5%. And the personal savings rate had returned by 80% to its pre-pandemic rate, indicating Americans were capable and willing to spend. Considering these factors – and many others – CBO projected the U.S. would return to pre-COVID economic levels and GDP output by mid-2021, just a couple months away.

At this same time, the Biden Administration was conversely aware of one major area of concern, the disruption of global supply chains. In fact, President Biden issued a February 2021 executive order to review U.S. supply chains, in part acknowledging they were already straining to meet rising consumer demand.

Yet despite these facts – a soon-to-be recovered economy, strong consumer spending, and known limitations on the supply-side due to the documented supply chain issues – the Biden Administration and Congressional Democrats still somehow considered it responsible to ram

through a partisan \$1.9 trillion spending spree. It is little wonder how this catalyzed the inflation we see today.

And don't just take my word for it. Recently, economists at Morgan Stanley blamed record inflation on "*excess fiscal stimulus... particularly the last \$1.9T package at the end of March 2021...*" adding "*this is what turbocharged consumption and drove inflation to 40-year highs.*" Considering this damning assessment of the last reconciliation package, I can only add that any efforts to revive Democrats' currently stalled tax and spending legislation would no doubt worsen our economic condition.

Regarding the Fed specifically – though I am pleased you have begun taking the drastic action necessary to right the U.S. economy – these actions are long-overdue and monetary policy remains too loose. CPI inflation now stands at 8.6% per year but the Fed funds rate sits at only 1.6%. According to the Fed's semiannual report, the rate should be over 6% under the Taylor rule.

This disparity indicates not only the lengths the Fed has yet to go to normalize monetary policy, but also the fact that the Fed has largely boxed itself into a menu of purely reactive policy measures. Unless the Fed works quickly to move away from their discretion-based monetary policy approach that has remained consistently well-behind the curve, I am concerned the Fed will lose its credibility to effectively manage the national economic situation.

Regarding congressional oversight of the Fed, I remain concerned that the Fed and its regional banks continue a pattern of stonewalling reasonable requests for information. The latest example concerns the fairness, transparency, and consistency of Fed decisions to granting highly-valuable Fed master accounts.

This is a significant public policy issue. Ranking Member Toomey, myself, Senator Lummis, and others have repeatedly requested information about this from the Fed and the Kansas City Fed, yet still have few, if any, answers.

Just this month, the KC Fed refused to provide any information about its recent decision to revoke the master account of Reserve Trust, a non-bank fintech. This is significant given the controversy that arose in former Governor Raskin's nomination process when it was revealed that the KC Fed reversed its denial of Reserve Trust's application for a Fed master account following a call from Ms. Raskin. Now months after defending its decision to grant Reserve

Trust a master account, the KC Fed abruptly revoked the account without explanation. The KC Fed won't give Banking Republicans information or even a briefing about this curious reversal.

And it is important to point out that Republicans aren't the only ones who've found it difficult to conduct Fed oversight. Several of my Democratic colleagues, including Senators Warren and Menendez, have been vocal when they also found their oversight efforts met with resistance.

To address this unacceptable state of affairs, Congress should increase transparency at the Fed. Two simple steps that Republicans and Democrats can take together are: subject regional Fed banks to FOIA – which they currently are not – and forbid the Fed from using FOIA exemptions to withhold info from any member of Congress, not just committee chairmen. This second idea is a bipartisan proposal that has already passed the House and something Senator Ossoff has mentioned in regards to various federal agencies in the past.

Likewise, Congress should also explore making the presidents of the regional Fed banks presidentially-appointed, Senate-confirmed positions. This is another bipartisan idea as Senator Reed previously proposed this requirement for the New York Fed president position and in 2015, Chairman Brown himself raised this idea during a Banking Committee hearing on reforms to the Fed.

The time has come to revisit these sensible ideas, and others, in order to make the Fed more transparent and accountable. I thank the chairman and look forward to Chairman Powell's testimony.