United States Senate
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS
WASHINGTON, DC 20510–6075

October 25, 2022

The Honorable Jerome Powell
Chair
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551

Dear Chair Powell:

As you know, the Federal Reserve is charged with the dual mandate of promoting maximum employment, stable prices, and moderate long-term interest rates in the U.S. economy. It is your job to combat inflation, but at the same time, you must not lose sight of your responsibility to ensure that we have full employment.

For the first time in decades, we have seen historic job growth, and workers have begun to see wage gains, gains that your prior actions to stabilize the economy helped achieve. Yet, many workers and their families are struggling under the weight of inflation. As you explained in your September 21, 2022, FOMC remarks, “If your family is one where you spend most of your paycheck, every paycheck cycle, on gas, food, transportation, clothing, basics of life, and prices go up the way they’ve been going up, you’re in trouble right away.” High inflation affecting household needs such as food, healthcare, and transportation strains middle- and lower-income budgets.[1] The Federal Reserve’s tools work to lower inflation by reducing demand for economic activities sensitive to interest rates. However, a family’s “pocketbook” needs have little to do with interest rates, and potential job losses brought about by monetary over-tightening will only worsen these matters for the working class.

Maintaining full employment while reducing inflation is central to protecting the workers who power our economy. Congress codified this mandate in the 1978 Full Employment and Balanced Growth Act – the Humphrey Hawkins Act. The law makes it clear that, “Increasing job opportunities and full employment would greatly contribute to the elimination of discrimination based upon sex, age, race, color, religion, national origin, handicap, or other improper factors.”

Upper-income households are better able to protect their wealth during economic downturns and seize future wealth-building opportunities when the economy recovers. At the same time, lower-income families have fewer resources to mitigate unemployment and less wealth to accumulate assets and realize gains during an economic recovery.[2] Due to this disparity, inflation and

[1] https://libertystreeteconomics.newyorkfed.org/2022/08/historically-low-delinquency-rates-coming-to-an-end/
[2] https://www.minneapolisfed.org/article/2022/how-the-racial-wealth-gap-has-evolved-and-why-it-persists

recessionary job losses increase the gap between upper- and lower-income households and widen the divide between racial groups.[3]

While, for now, the labor market remains relatively stable, we are starting to see job openings decrease and unemployment claims rise.[4] We must stay focused on addressing the root causes of inflation without putting workers' livelihoods at risk.

As our economy continues to rebuild, the United States and the world are still feeling the effects of a supply and demand imbalance from the pandemic. Russia's illegal invasion of Ukraine has driven energy costs up, affecting food, transportation, and other sectors. Big corporations in concentrated industries have exploited this inflationary environment, increasing consumer costs and earning higher profit margins than before.[5] As Vice Chair Brainard indicated, in some sectors, increased margins exceed wages paid to workers, and there is "ample room for margin recompression to help reduce goods inflation as demand cools, supply constraints ease, and inventories ease."[6] Higher interest rates and borrowing costs have not led companies to bring down prices.

To begin addressing the drivers of inflation, Congress took action to lower costs for working families. The Inflation Reduction Act of 2022 lowers healthcare costs and initiates fiscal action to strengthen the economy.[7] To reduce supply chain issues, we passed the Ocean Shipping Reform Act of 2022, which addresses high costs due to oceanic shipping.[8] The Federal Reserve Bank of New York's Global Supply Chain Pressure Index 2021 (GSCPI) decreased each of the last five months and is at its lowest since November 2022.[9] The New York Reserve Bank attributes much of this decline to reduced container shipping costs.

Around the world, central banks are also increasing interest rates to tame inflation.[10] Unfortunately, there is a strong chance these simultaneous individual efforts will amplify each other and produce greater than intended consequences. This risk of combined policy response and uncertainty from exogenous events, such as Russia's illegal war against Ukraine and the anti-competitive actions by cartels like OPEC, creates the real possibility of worsening the global economic situation. Protecting the world's most vulnerable populations and avoiding disruption that further increases the global wealth gap requires your continued caution.

Monetary policy tools take time to reduce inflation by constraining demand until supply catches up – time that working-class families don't have. As J.P. Morgan Asset Management chief global strategist David Kelly noted, "[i]n the long history of Federal Reserve mistakes, one

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[3] https://www.federalreserve.gov/econres/notes/feds-notes/wealth-inequality-and-the-racial-wealth-gap-20211022.html
[4] https://www.bls.gov/news.release/pdf/empsit.pdf; https://www.nytimes.com/live/2022/10/07/business/jobs-report-september-economy
[5] https://fortune.com/2022/08/25/us-corporate-profit-margins-second-quarter-widest-since-1950/
[6] https://www.federalreserve.gov/newsevents/speech/brainard20221010a.htm
[7] https://www.congress.gov/bill/117th-congress/house-bill/5376
[8] https://www.congress.gov/bill/117th-congress/senate-bill/3580
[9] https://www.newyorkfed.org/research/policy/gscpi#/overview
[10] https://www.wsj.com/articles/central-banks-may-stoke-risks-by-raising-interest-rates-together-11664110802

general error stands out. They tend to wait too long and then do too much."[11] We must avoid having our short-term advances and strong labor market overwhelmed by the consequences of aggressive monetary actions to decrease inflation, especially when the Fed's actions do not address its main drivers.

For working Americans who already feel the crush of inflation, job losses will make it much worse. We can't risk the livelihoods of millions of Americans who can't afford it. I ask that you don't forget your responsibility to promote maximum employment and that the decisions you make at the next FOMC meeting reflect your commitment to the dual mandate.

Sincerely,

Sherrod Brown
Chairman

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[11] https://www.cnn.com/2022/10/12/investing/premarket-trading-stocks#:~:text=%E2%80%9CIn%20the%20long%20history%20of,to%20repeating%20this%20error%20today.%E2%80%9D