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

January 30, 2024

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:

It's the responsibility of the Board of Governors of the Federal Reserve System (the Federal Reserve or Fed) and its Federal Open Market Committee (FOMC) to maintain full employment, stable prices, and moderate long-term interest rates. Accordingly, it is your responsibility to set monetary policy that puts our country on a trajectory of both balanced growth and economic opportunity. Working families and small businesses have too much to lose if the Federal Reserve maintains high interest rates.

Even with recent wage gains outpacing inflation, the cost of living is far too high for most Americans. Increased costs of goods and services, including food, housing, and childcare, have stretched family budgets, making it harder for Americans to keep up with the costs and save money.<sup>1</sup> Inflation's burden is not felt equally by all – higher prices for housing, food, and transportation disproportionately hurt middle- and working-class families who spend more of their budget on these essentials.<sup>2</sup>

At the December 13, 2023, FOMC meeting, “Several participants assessed that healing in supply chains and labor supply was largely complete, and therefore that continued progress in reducing inflation may need to come mainly from further softening in product and labor demand, with restrictive monetary policy continuing to play a central role.”<sup>3</sup> Because monetary policy operates on a lag, keeping interest rates elevated will continue to apply downward pressure on the labor market and wages, and drive up mortgage costs, while doing nothing to tackle the cause of continued high prices. When the Fed justifies higher interest rates for the sake of weakening demand, that is, in effect, a euphemism for suppressing wages and job creation. The burden of attaining price stability should not fall on the backs of workers and home-buyers.

<sup>1</sup> *Bloomberg*, “Just How Bad Is the US Cost of Living Squeeze? We Did the Math,” November 27, 2023, <https://www.bloomberg.com/graphics/2023-inflation-economy-cost-of-living/?srnd=economics-v2>

<sup>2</sup> *Federal Reserve Bank of New York*, “Equitable Growth Indicators,” November 29<sup>th</sup>, 2023, [https://www.newyorkfed.org/medialibrary/Research/Interactives/Data/equitable-growth-indicators/downloads/10\\_2023\\_EGI\\_national\\_FULL](https://www.newyorkfed.org/medialibrary/Research/Interactives/Data/equitable-growth-indicators/downloads/10_2023_EGI_national_FULL)

<sup>3</sup> *Federal Open Market Committee*, “Minutes of the Federal Open Market Committee, December 12-13, 2023,” <https://www.federalreserve.gov/monetarypolicy/fomcminutes20231213.htm>

**Many of the price increases we see now can be attributed to corporations increasing prices to boost already-high profits and executive compensation even higher.** Chief UBS Economist Paul Donovan has described the current bout of inflation as being the result of companies taking “advantage of circumstances to expand [their] profit margins”.<sup>4</sup> When external events temporarily raised production costs, companies raised prices; however, once production costs normalized, companies kept prices high, raising their profit margins.<sup>5</sup> The most recent data for 2023 shows that more than half of inflation was caused by ballooning corporate profits, and the majority of companies plan to keep prices higher in 2024.<sup>6</sup> At the peak of inflation, corporate profits increased nearly 60 percent.<sup>7</sup> These fatter profit margins have gone into the pockets of CEOs and wealthy shareholders, not the workers powering our economy. Despite record profits, the share of corporate profits paid out to workers through higher wages has declined.<sup>8</sup>

**To lower costs for all Americans, we must address inflation’s root causes without undercutting economic growth.** Monetary policy does nothing to address the underlying cause of higher prices – namely, corporate price-gouging – but it does undermine economic growth. Higher rates are locking Americans out of the two primary means for building wealth—buying a home and starting or growing a small business.

**Higher rates hurt prospective home buyers.** I hear from so many Ohioans that they feel trapped – those who rent feel like they’ll never be able to afford to buy and those who already own their homes feel like they will never be able to afford a larger one if they decide to grow their family. Prices have been too high for too long for both renters and homebuyers across the country, and these challenges have only grown more acute as interest rates have stayed elevated.<sup>9</sup> For prospective home buyers, the same mortgage for a home purchased today costs nearly double what it did in 2020.<sup>10</sup> Higher rates have also given corporations an advantage over consumers in the housing market. As consumers face elevated interest rates, many of the biggest real estate investors have access to cheaper Wall Street financing, allowing them to buy up real estate with all-cash offers based on financing costs a working family could never get. As a result, institutional investors – including private equity and S&P 500 companies – are buying up formerly affordable manufactured housing communities and affordable single-family homes in far too many communities. Homeownership is the primary means for working-class and middle-class families to acquire wealth, and higher interest rates are making it

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<sup>4</sup> *Financial Times*, “Fed should make clear that rising profit margins are spurring inflation,” November 22, 2023, <https://www.ft.com/content/837c3863-fc15-476c-841d-340c623565ae?shareType=nongift>

<sup>5</sup> *Economic Policy Institute*, “Even with today’s slowdown, profit growth remains a big driver of inflation in recent years,” March 30, 2023, <https://www.epi.org/blog/even-with-todays-slowdown-profit-growth-remains-a-big-driver-of-inflation-in-recent-years-corporate-profits-have-contributed-to-more-than-a-third-of-price-growth/>; *U.S. Bureau of Labor Statistics*, Producer Price Index by Commodity: All Commodities [PPIACO], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/PPIACO>, Retrieved January 28, 2024.

<sup>6</sup> *Groundwork Collaborative*, “Inflation Revelation: How Outsized Corporate Profits Drive Rising Costs,” January 18, 2023, <https://groundworkcollaborative.org/wp-content/uploads/2024/01/24.01.17-GWC-Corporate-Profits-Report.pdf>; *Financial Times*, “Companies’ reluctance to roll back price rises poses US inflation risk,” January 22, 2024, <https://www.ft.com/content/5876932e-ddf6-468e-b652-1f05edcb89bb>

<sup>7</sup> *U.S. Bureau of Economic Analysis*, “National income: Corporate profits before tax (without IVA and CCAAdj)” [A053RC1Q027SBEA], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/A053RC1Q027SBEA>, Retrieved January 25, 2024.

<sup>8</sup> *Groundwork Collaborative*, “Inflation Revelation: How Outsized Corporate Profits Drive Rising Costs,” January 18, 2023, <https://groundworkcollaborative.org/wp-content/uploads/2024/01/24.01.17-GWC-Corporate-Profits-Report.pdf>

<sup>9</sup> *Federal Reserve Bank of New York*, “The State of Low-Income America: Credit Access & Housing,” January 2024, [https://www.newyorkfed.org/medialibrary/media/newsevents/news/regional\\_outreach/2024/the-state-of-low-income-america-credit-access-housing-jan-24](https://www.newyorkfed.org/medialibrary/media/newsevents/news/regional_outreach/2024/the-state-of-low-income-america-credit-access-housing-jan-24)

<sup>10</sup> *Federal Reserve Bank of Kansas City*, “Monthly Mortgage Payments for Homebuyers Continue to Soar,” October 17, 2023, <https://www.kansascityfed.org/research/charting-the-economy/monthly-mortgage-payments-for-homebuyers-continue-to-soar/>

harder for them to afford a mortgage to purchase a home, denying them the opportunity to build intergenerational wealth.

**Higher interest rates are hindering growth in the housing supply.** High interest rates are also contributing to high housing costs by exacerbating our years-long housing shortage as they limit affordable housing providers' ability to finance new construction at price points that workers can afford. As a result, housing production remains thousands of units behind each year in communities across the country, and renters are forced to pay high prices month after month. In 2022, a record half of renters were paying more than they could afford for housing, pushing their ability to save for a down payment further out of reach.<sup>11</sup> If affordable housing providers remain unable to build new units that these workers can afford, housing costs will only continue to contribute to rising prices.

**Higher interest rates stall small business growth.** Tightened credit conditions are making it difficult for small businesses to thrive. Keeping the policy rate higher for longer has driven up the cost of credit for small business loans. Today, a small business seeking to take out a loan will pay on average 9.3% in interest. For the small businesses who have already taken out loans, higher rates will increase their interest burden in 2024.<sup>12</sup> Consequently, 9-out-of-10 small businesses think now is not a good time to expand their business.<sup>13</sup> Small businesses employ half of America's workers and higher rates are discouraging them from both hiring workers and increasing their employees' wages to keep up with inflation.

For working Americans and small businesses who already feel the crush of inflation, higher housing costs and reduced access to credit will only make it worse. Keeping interest rates high will be detrimental to American workers and their families and do little to bring down prices or promote moderate economic growth. While more must be done to address the fact that costs remain too high, it is becoming increasingly evident that restrictive monetary policy is no longer the right tool for combatting inflation, and I urge the Federal Reserve to ease monetary policy early this year.

Sincerely,

A handwritten signature in blue ink that reads "Sherrod Brown".

Chairman Sherrod Brown

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<sup>11</sup> Joint Center for Housing Studies of Harvard University, "America's Rental Housing 2024,"

[https://www.jchs.harvard.edu/sites/default/files/reports/files/Harvard\\_JCHS\\_Americas\\_Rental\\_Housing\\_2024.pdf](https://www.jchs.harvard.edu/sites/default/files/reports/files/Harvard_JCHS_Americas_Rental_Housing_2024.pdf)

<sup>12</sup> Goldman Sachs, "Why US small businesses are on a surprisingly strong footing as interest rates rise," December 1, 2023,

<https://www.goldmansachs.com/intelligence/pages/why-us-small-businesses-are-on-strong-footing-as-interest-rates-rise.html>

<sup>13</sup> National Federation of Independent Businesses, "Small Business Economic Trends," December 2023,

<https://strgnfibcom.blob.core.windows.net/nfibcom/SBET-Dec-2023.pdf>