THE ECONOMIC OUTLOOK: THE VIEW FROM THE FEDERAL RESERVE

HEARING

BEFORE THE

COMMITTEE ON THE BUDGET
HOUSE OF REPRESENTATIVES

ONE HUNDRED SIXTEENTH CONGRESS

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THE ECONOMIC OUTLOOK: THE VIEW FROM THE FEDERAL RESERVE

THURSDAY, NOVEMBER 14, 2019

HOUSE OF REPRESENTATIVES,
COMMITTEE ON THE BUDGET,
Washington, D.C.

The Committee met, pursuant to call, at 10:00 a.m., in Room 210, Cannon House Office Building, Hon. John A. Yarmuth [Chairman of the Committee] presiding.

Present: Representatives Yarmuth, Moulton, Jeffries, Higgins, Boyle, Khanna, DeLauro, Price, Schakowsky, Kildee, Panetta, Morelle, Horsford, Scott, Jackson Lee, Lee, Jayapal, Sires, Peters, Cooper; Womack, Woodall, Johnson, Smith, Flores, Holding, Stewart, Norman, Hern, Roy, Meuser, Crenshaw, and Burchett.

Chairman YARMUTH. The hearing will come to order.

Good morning, and welcome to the Budget Committee's hearing on The Economic Outlook: The View from the Federal Reserve.

Thank you, Chair Powell, for coming to our Committee today to testify on the economy. We know you are on a tight schedule, and in order to keep you on schedule, I am sure that all—and ensure that all Members have an opportunity to ask questions, I ask unanimous consent to deviate from the five-minute rule. Members will be recognized during the question and answer session for three minutes.

Without objection, so ordered.

And the Ranking Member and I will be recognized for five minutes during the question and answer session, instead of 10.

Without objection, so ordered.

Per agreement with the Ranking Member, we will reduce our time for opening remarks, and we will both be recognized for three minutes.

I now yield myself three minutes, which I will not use.

But once again, Chair Powell, thank you for being here. It is been seven years since the Chair of the Federal Reserve has appeared before this Committee, and we are very grateful for your being willing to do that.

And I want to say at the outset, I am going to submit my written testimony for the record to save time. But I also want to make sure you know that we wholeheartedly support the Fed's independence, and the President's repeated attacks on this critical institution are unacceptable and dangerous.

So I look forward to hearing your testimony on the state of our economy and discussing what opportunities Congress and the Fed have to support our workers and foster a healthy and sustainable economy that works for all Americans.

With that, I yield to the Ranking Member.

[The prepared statement of Chairman Yarmuth follows:]

Chairman John Yarmuth
Hearing on The Economic Outlook:
The View from the Federal Reserve
Opening Statement
November 14, 2019

Thank you, Chair Powell, for being here. It has been seven years since a chair of the Federal Reserve has testified before the House Budget Committee. In 2012, our economy was in a very different condition than it is now. The Great Recession was still casting a heavy shadow over our country, and families and businesses were still picking up the pieces. While the impact of the Great Recession is still reverberating in communities and households across the country, our economy has come a long way: today, we are enjoying our nation's longest uninterrupted period of economic expansion, 124 consecutive months, and unemployment remains near historic lows.

But, at the same time, American workers are not reaping the full benefits of these gains. Wage growth has failed to match expectations for this rate of low unemployment, and income inequality is at its highest level in more than five decades. This is hurting our families, limiting our economic potential, and damaging our nation's budget outlook.

American manufacturers, farmers, and workers are suffering even more under President Trump's trade war, and our country is now dealing with the consequences of the Republican tax cuts, which blew a $1.9 trillion hole in our budget, while doing next to nothing for working families or our long-term economic growth.

Rather than providing more tax cuts to the wealthy few and increasing barriers to economic opportunity, we need policies that will help working Americans succeed and improve the nation's fiscal health.

In short, Congress needs to be making critical and strategic long-term investments in our nation's future. From implementing progressive revenue policies that ensure the wealthy pay their fair share, to bolstering education and training programs, to combatting climate change and strengthening resilience efforts, to fighting rising inequality and reforming our broken immigration system, Congress can – and must – lay the groundwork for inclusive economic growth that will support working families for generations to come.

The Federal Reserve has an important role to play as well. In today's unprecedented low-inflation environment, the Fed may be able to keep unemployment lower for longer, with little economic risk. Sustained strong labor markets are critical for reducing income inequality, narrowing racial employment and earnings gaps, and ensuring workers receive the competitive wages they deserve. By affirming its commitment to full employment, the Fed can support American workers, prolonging the economic expansion we've enjoyed while helping to rebuild the middle class and fully repair the damage of the Great Recession.

I would like to thank Chair Powell for his participation today. We wholeheartedly support the Fed's independence, and the President's repeated attacks on this critical institution are unacceptable and dangerous. I look forward to hearing your testimony on the state of our economy and discussing what opportunities Congress and the Fed have to support our workers and foster a healthy and sustainable economy that works for all Americans.

Mr. WOMACK. I thank the Chairman. And, Mr. Chairman, it is a great honor to have you before this Committee. As the Chairman of the Committee has said, it has been many years since the Reserve Chairman has been here, and we are delighted to have you.

I too will submit my opening comment for the record so that we can expedite matters, hear your opening comments, and get to the Q&A.

But once again, welcome. I yield back.

[The prepared statement of Steve Womack follows:]

HOUSE
BUDGET
REPUBLICANS

Rep. Steve Womack
Ranking Member

Ranking Member Steve Womack (R-AR) Opening Remarks at Hearing Entitled: The Economic Outlook: The View from the Federal Reserve

Remarks as submitted for the record:

Thank you, Chairman Yarmuth, for holding this hearing.

And thank you, Chairman Powell, for being here with us today. The request for this hearing originated when I chaired this committee, and I am glad to participate in this important conversation. The work of the Federal Reserve is central to our understanding in Congress as we seek to foster economic growth. This hearing is good for our committee, and helpful as we carry out our responsibilities for the American taxpayer.

Our economy is strong, and the forward momentum continues thanks to the pro-growth policies enacted last Congress and under this Administration. In fact, last month marked the 124th consecutive month of economic growth. This is the longest period of uninterrupted growth in American history.

Chairman Powell, you recently stated that "many people who have struggled to find work are now getting opportunities to add new and better chapters to their lives." We know this to be true because we travel through our respective districts and see the results firsthand. The strength of the current job market is such that the number of job openings exceeds the number of unemployed Americans by more than one million.

The unemployment rate is 3.6 percent – near the lowest our nation has seen in half a century.

While our country is experiencing economic prosperity that should certainly be celebrated, we continue to face very real long-term fiscal challenges. Of course, the most pressing concern for myself and many of my colleagues on this committee is the ever-increasing federal debt.

To put it plainly: the debt is on a completely unsustainable trajectory. The publicly-held debt has averaged 42 percent of GDP over the last fifty years. Today, it is $17 trillion and accounts for 79 percent of GDP, and the outlook is not good. The debt is projected to increase to an astronomical 144 percent of GDP by 2049 – by far the highest level in American history.

The key driver of our nation's growing debt is out-of-control mandatory spending, which has grown from 34 percent of the federal budget in 1965 to 70 percent today. Interest on the debt alone threatens to devour major categories of discretionary spending.

It goes without saying that these levels of debt are detrimental to our economy, and failure to address the problem would be unacceptable and fiscally irresponsible. A growing federal debt has proven to have a negative impact on business investment, productivity, and economic growth.

In order to preserve our country's economic advancements, it is imperative that Republicans and Democrats in the House and Senate come together to reduce the debt.
Thank you, again, for being here today, Chairman Powell. I look forward to hearing your perspective and insight.

Thank you, Mr. Chairman. I yield back the balance of my time.

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Chairman YARMUTH. I thank the Ranking Member.

And if any other Members have opening statements, they may submit those in writing for the record as well.

Once again, Chair Powell, thank you for being here this morning. The Committee has received your written statement, and it will be made part of the formal hearing record.

You will now have 10 minutes to give your oral remarks, and may begin when you are ready.

STATEMENT OF THE HON. JEROME H. POWELL, CHAIR, BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Mr. POWELL. Thank you very much, Chairman Yarmuth and Ranking Member Womack, and Members of the Committee. I appreciate the opportunity to testify before you today. Let me start by saying that my colleagues and I strongly support the goal of maximum employment and price stability that Congress has set for monetary policy. We are committed to providing clear explanations about our policies and actions. Congress has given us an important degree of independence so that we can effectively pursue our statutory goals based on facts and objective analysis. We appreciate that our independence brings with it an obligation for transparency and accountability. Today I will discuss the outlook for the economy and for monetary policy.

The U.S. economy is now in the 11th year of this expansion, and the baseline outlook remains favorable. Gross domestic product increased at an annual pace of 1.9 percent in the third quarter of this year after rising at around a 2.5 percent rate last year and in the first half of this year. The moderate third quarter rating is partly due to the transitory effect of the UAW strike at General Motors. But it also reflects weakness in business investment, which is being restrained by sluggish growth abroad and by trade developments. These factors have also weighed on exports and on manufacturing this year. In contrast, household consumption has continued to rise solidly, supported by a healthy job market, rising incomes, and favorable levels of consumer confidence. And reflecting the decline in mortgage rates since late 2018, residential investment turned up in the third quarter following an extended period of weakness.

The unemployment rate was 3.6 percent in October, near a half-century low. The pace of job gains has eased this year but remains solid. We had been expecting some slowing after last year's strong pace. At the same time, participation in the labor force by people in their prime working years has been increasing. Ample job opportunities appear to have encouraged many people to join the workforce and others to remain in it. This is a very welcome development.

The improvement in the jobs market in recent years has benefited a wide range of individuals and communities. Indeed, recent wage gains have been the strongest for lower paid workers. People who live and work in low- and middle-income communities tell us that many who have struggled to find work are now getting opportunities to add new and better chapters to their lives. Significant differences, however, do persist across different groups of workers and different areas of the country. Unemployment rates for African

Americans and Hispanics are still well above the jobless rates for Whites and Asians, and the proportion of people with a job is lower in rural communities.

Inflation continues to run below the Federal Open Market Committee's symmetric 2 percent objective. The total price index for personal consumption expenditures increased 1.3 percent over the 12 months ending in September, held by declines in energy prices. Core PCE inflation, which excludes food and energy prices and tends to be a better indicator of future inflation, was 1.7 percent over the same period.

Looking ahead, my colleagues and I see a sustained expansion of economic activity, a strong labor market, and inflation near our symmetric 2 percent objective as most likely. This favorable baseline outlook partly reflects the policy adjustments that we have made to provide support for the economy. However, noteworthy risks to this outlook remain. In particular, sluggish growth abroad and trade developments have weighed on the economy and pose ongoing risks. Moreover, inflation pressures remain muted, and indicators of longer term inflation expectations are at the lower end of their historic ranges. Persistent below-target inflation could lead to an unwelcome downward slide in longer term inflation expectations. We will continue to monitor these developments and assess their implications for U.S. economic activity and inflation.

We will also continue to monitor risks to the financial system. Over the past year, the overall level of vulnerabilities facing the financial system has remained at a moderate level. Overall, investor appetite for risk appears to be within a normal range, although it is elevated in some asset classes. Debt loads of businesses are historically high, but the ratio of household borrowing to income is low relative to its pre-crisis level and has been gradually declining in recent years. The core of the financial system appears resilient, with leverage low and funding risk limited relative to the levels of recent decades. At the end of this week, we will be releasing our third semiannual Financial Stability Report, which shares our detailed assessment of the resilience of the U.S. financial system.

Turning to monetary policy. Over the past year, weakness in global growth, trade developments, and muted inflation pressures have prompted the FOMC to adjust its assessment of the appropriate path of interest rates. Since July, the Committee has lowered the target range for the federal funds rate by three-quarters of a percentage point. And these policy adjustments put the current target range at 1½ to 1¾ percent.

The Committee took these actions to help keep the U.S. economy strong and inflation near our 2 percent objective and to provide some insurance against ongoing risks. As monetary policy operates with a lag, the full effects of these adjustments on economic growth, the job market, and inflation will be realized over time. We see the current stance of monetary policy as likely to remain appropriate as long as incoming information about the economy remains broadly consistent with our outlook of moderate growth, a strong labor market, and inflation near our symmetric 2 percent objective.

We will be monitoring the effects of our policy actions along with other information bearing on the outlook as we assess the appropriate path of the target range for the fed funds rate. Of course, if developments emerge that cause a material reassessment of our outlook, we would respond accordingly. Policy is not on a preset course.

The FOMC is committed to ensuring that our policy framework remains well positioned to meet our statutory goals. We believe that our existing framework has served us well. Nonetheless, the current low interest rate environment may limit the ability of monetary policy to support the economy. We are currently conducting a public review of our monetary policy strategy, tools, and communications, the first review of its kind for the Fed. With the U.S. economy operating close to maximum employment and price stability, now is an especially opportune time to conduct such a review.

Through our Fed Listens events around the country, we have been hearing a diverse range of perspectives, not only from academic experts, but also from representatives of consumer, labor, business, community, and other groups. We will draw on these insights as we assess how best to achieve and maintain maximum employment and price stability. We will continue to report on our discussions in the minutes of our meetings and share our conclusions when we finish the review, likely around the middle of next year.

In a downturn, it will also be important for fiscal policy to support the economy. However, as noted in the CBO's recent long-term budget outlook, the federal budget is not on—sorry—is on an unsustainable path, with high and rising debt. Over time, this outlook could restrain fiscal policymakers' willingness or ability to support economic activity during a downturn. In addition, I remain concerned that high and rising federal debt can, in the longer term, restrain private investment and thereby reduce productivity and overall economic growth. Putting the federal budget on a sustainable path would aid the long-term vigor of the U.S. economy and help ensure that policymakers have the space to use fiscal policy to assist in stabilizing the economy if it weakens.

I will conclude with just a couple of words on the technical implementation of monetary policy. In January, the FOMC made the key decision to continue to implement monetary policy in an ample-reserves regime. In such a regime, we will continue to control the federal funds rate primarily by setting our administered rates and not through frequent interventions to actively manage the supply of reserves.

In the transition to the efficient and effective level of reserves in this regime, we slowed the gradual decline in our balance sheet in May, and we stopped it in July. And in response to funding pressures in money markets that emerged in mid-September, we decided to maintain a level of reserves at or above the level that prevailed in early September. To achieve this level of reserves, we announced in mid-October that we would purchase Treasury bills at least into the second quarter of next year and would continue temporary open market operations at least through January. These actions are purely technical measures to support the effective implementation of monetary policy as we continue to learn about the appropriate level of reserves. They do not represent a change in the stance of monetary policy.

Thank you. I will look forward to our discussions.

[The prepared statement of Jerome H. Powell follows:]

Statement by

Jerome H. Powell

Chair

Board of Governors of the Federal Reserve System

before the

House Committee on the Budget

U.S. Congress

November 14, 2019

Chairman Yarmuth, Ranking Member Womack, and members of the Committee, I appreciate the opportunity to testify before you today. Let me start by saying that my colleagues and I strongly support the goals of maximum employment and price stability that Congress has set for monetary policy. We are committed to providing clear explanations about our policies and actions. Congress has given us an important degree of independence so that we can effectively pursue our statutory goals based on facts and objective analysis. We appreciate that our independence brings with it an obligation for transparency and accountability. Today I will discuss the outlook for the economy and monetary policy.

The Economic Outlook

The U.S. economy is now in the 11th year of this expansion, and the baseline outlook remains favorable. Gross domestic product increased at an annual pace of 1.9 percent in the third quarter of this year after rising at around a 2.5 percent rate last year and in the first half of this year. The moderate third-quarter reading is partly due to the transitory effect of the United Auto Workers strike at General Motors. But it also reflects weakness in business investment, which is being restrained by sluggish growth abroad and trade developments. These factors have also weighed on exports and manufacturing this year. In contrast, household consumption has continued to rise solidly, supported by a healthy job market, rising incomes, and favorable levels of consumer confidence. And reflecting the decline in mortgage rates since late 2018, residential investment turned up in the third quarter following an extended period of weakness.

The unemployment rate was 3.6 percent in October—near a half-century low. The pace of job gains has eased this year but remains solid; we had expected some slowing after last year's strong pace. At the same time, participation in the labor force by people in their prime working years has been increasing. Ample job opportunities appear to have encouraged many people to join the workforce and others to remain in it. This is a very welcome development.

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Inflation continues to run below the Federal Open Market Committee's (FOMC) symmetric 2 percent objective. The total price index for personal consumption expenditures (PCE) increased 1.3 percent over the 12 months ending in September, held down by declines in energy prices. Core PCE inflation, which excludes food and energy prices and tends to be a better indicator of future inflation, was 1.7 percent over the same period.

Looking ahead, my colleagues and I see a sustained expansion of economic activity, a strong labor market, and inflation near our symmetric 2 percent objective as most likely. This favorable baseline partly reflects the policy adjustments that we have made to provide support for the economy. However, noteworthy risks to this outlook remain. In particular, sluggish growth abroad and trade developments have weighed on the economy and pose ongoing risks. Moreover, inflation pressures remain muted, and indicators of longer-term inflation expectations are at the lower end of their historical ranges. Persistent below-target inflation could lead to an unwelcome downward slide in longer-term inflation expectations. We will continue to monitor these developments and assess their implications for U.S. economic activity and inflation.

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Monetary Policy

Over the past year, weakness in global growth, trade developments, and muted inflation pressures have prompted the FOMC to adjust its assessment of the appropriate path of interest rates. Since July, the Committee has lowered the target range for the federal funds rate by 3/4 percentage point. These policy adjustments put the current target range at 1-1/2 to 1-3/4 percent.

The Committee took these actions to help keep the U.S. economy strong and inflation near our 2 percent objective and to provide some insurance against ongoing risks. As monetary policy operates with a lag, the full effects of these adjustments on economic growth, the job market, and inflation will be realized over time. We see the current stance of monetary policy as likely to remain appropriate as long as incoming information about the economy remains broadly consistent with our outlook of moderate economic growth, a strong labor market, and inflation near our symmetric 2 percent objective.

We will be monitoring the effects of our policy actions, along with other information bearing on the outlook, as we assess the appropriate path of the target range for the federal funds rate. Of course, if developments emerge that cause a material reassessment of our outlook, we would respond accordingly. Policy is not on a preset course.

The FOMC is committed to ensuring that its policy framework remains well positioned to meet its statutory goals. We believe our existing framework has served us well. Nonetheless, the current low interest rate environment may limit the ability of monetary policy to support the economy. We are currently conducting a public review of our monetary policy strategy, tools, and communications—the first of its kind for the Fed. With the U.S. economy operating close to maximum employment and price stability, now is an especially opportune time to conduct such a review. Through our *Fed Listens* events, we have been hearing a diverse range of perspectives not only from academic experts, but also from representatives of consumer, labor, business, community, and other groups. We will draw on these insights as we assess how best to achieve and maintain maximum employment and price stability. We will continue to report on our discussions in the minutes of our meetings and share our conclusions when we finish the review, likely around the middle of next year.

In a downturn, it would also be important for fiscal policy to support the economy. However, as noted in the Congressional Budget Office's recent long-term budget outlook, the federal budget is on an unsustainable path, with high and rising debt: Over time, this outlook could restrain fiscal policymakers' willingness or ability to support economic activity during a downturn.[1] In addition, I remain concerned that high and rising federal debt can, in the longer term, restrain private investment and, thereby, reduce productivity and overall economic growth. Putting the federal budget on a sustainable path would aid the long-term vigor of the U.S. economy and help ensure that policymakers have the space to use fiscal policy to assist in stabilizing the economy if it weakens.

I will conclude with a few words on the technical implementation of monetary policy. In January, the FOMC made the key decision to continue to implement monetary policy in an ample-reserves regime. In such a regime, we will continue to control the federal funds rate primarily by setting our administered rates, not through frequent interventions to actively manage the supply of reserves. In the transition to the efficient and effective level of reserves in this regime, we slowed the gradual decline in our balance sheet in May, and stopped it in July. In response to the funding pressures in money markets that emerged in mid-September, we decided to maintain a level of reserves at or above the level that prevailed in early September. To achieve this level of reserves, we announced in mid-October that we would purchase Treasury bills at least into the second quarter of next year and would continue temporary open market operations at least through January. These actions are purely technical measures to support the effective implementation of monetary policy as we continue to learn about the appropriate level of reserves. They do not represent a change in the stance of monetary policy.

Thank you. I would be pleased to take your questions.

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[1] Congressional Budget Office (2019), *The 2019 Long-Term Budget Outlook* (Washington: CBO, June), https://www.cbo.gov/system/files/2019-06/55331-LTBO-2.pdf.

Chairman YARMUTH. Thank you very much for your statement.

We will now begin our question and answer session. As a reminder, Members can submit written questions to be answered later in writing. Those questions and Mr. Powell's answers will be made part of the formal hearing record. Any Members who wish to submit questions for the record may do so within seven days.

As we normally do, the Ranking Member and I will defer our questions until the end.

We will just admonish all the Members that I will not be my normal accommodating self with the gavel. We are going to try to keep pretty strictly to the time limits so that we can get Mr. Powell out of here during—he has got a hard stop at noon.

So with that, I now recognize the gentleman from Massachusetts, Mr. Moulton, for three minutes.

Mr. MOULTON. Chair Powell, thank you very much for joining us here. We share your interest in continuing this 11-year economic expansion, but we also have some concerns. And one of my concerns—I will be the first to say it—is that we in Congress have not been good partners in doing our part. You just mentioned that you are concerned about the high and rising federal debt and the fact that, in the long term, it could restrain private investment and thereby reduce productivity and overall economic growth.

It is atypical to increase deficits, as we are now doing, during a prolonged economic expansion. However, according to the CBO, the Tax Cuts and Jobs Act, which primarily benefited wealthier Americans and corporations, added $1.9 trillion to the deficit over 10 years.

Now, of course, Republicans claimed that this would lead to increased business investment, yet you testified that moderate third quarter GDP growth, quote, reflects weakness in business investment, which is impacted by sluggish growth abroad and trade developments. I am hoping you can elaborate on what you mean by "trade developments."

Mr. POWELL. Trade developments. Well, first of all, let me say that we have no responsibility for trade policy, and no one should think of us as commenting on trade policy or giving anyone advice on trade policy. It is not our role. We have a very narrow role. We try to stick to that. But our role is the U.S. economy and supporting maximum employment, stable prices. And to do that, anything that could affect our achievement of those goals is, in principle, relevant for monetary policy.

So we have been hearing for the last year and a half really from businesses that uncertainty around trade policy, and to some extent tariffs, have been weighing on business sentiment. So that is really what I am referring to there.

Mr. MOULTON. Chair Powell, yesterday you also discussed policies and programs that could bring discouraged workers back into the workforce to address the fact that, despite our growth, we still have lagging workforce participation. We are currently at 63.3 percent. And you mentioned mothers returning to the workforce after their children grow up.

As a father of a one-year-old, who is here with me in Washington today because my wife is on a business trip to Dallas, I wondered if you could talk about the value of paid family leave to ensure that women who want to work while they are raising children can do so.

Mr. POWELL. So labor force participation is a very important issue for the United States that needs urgent—urgent attention. We do lag other comparable countries, essentially all of them now, in labor force participation. And I can point you to research. I can talk about institutional differences. But it really is not appropriate for me to evaluate or support particular policies.

Remember, we are not elected by anyone. We have been given a specific mandate. And I think it is really up to——

Mr. MOULTON. Well, let's just answer the question. Would paid family leave help increase workforce participation?

Mr. POWELL. So there is—there is research that shows that those kinds of policies that support childcare and family leave in other countries have supported higher participation among women in the workforce.

Mr. MOULTON. Thank you very much, Chairman.

Chairman YARMUTH. The gentleman's time has expired.

I now recognize the gentleman from Ohio, Mr. Johnson, for three minutes.

Mr. JOHNSON. Thank you, Mr. Chairman and Ranking Member Womack, for holding this important hearing. And, Chairman Powell, thank you for being here today.

You know, as the representative for eastern and southeastern Ohio, I am very concerned about the consequences of our growing national debt and what that will have on the economic security and quality of life for our children and grandchildren.

The publicly held debt has averaged 42 percent of gross domestic product over the last 50 years. It is now at 79 percent of GDP. Within three decades, the Congressional Budget Office projects that it will reach 144 percent of GDP, which would be by far the highest level in American history.

So, Chairman Powell, in your view, is the federal budget outlook sustainable?

Mr. POWELL. I think I would define sustainable as that the debt is not growing faster than the economy. Our debt is growing faster than our economy by a margin. And so I think by definition that makes it unsustainable.

Mr. JOHNSON. Okay. Can the debt continue to indefinitely grow as a percentage of GDP? At what point do we reach that tipping point where we are unrecoverable?

Mr. POWELL. That is not a question to which there really is an answer, the specific tipping point. There is really—there is examples of countries that have much higher levels.

What you do know is that over time, as the debt builds up, you will be spending more and more—or more accurately, our children and grandchildren will be spending more of their tax dollars to pay for interest on the borrowing that we have done as opposed to the things they need: education, healthcare, security.

Mr. JOHNSON. Well, you answered my next question actually in your first response. What is the appropriate way to measure budget sustainability? And that is when your economy is growing faster than your debt, not the other way around. So I will skip that question.

So if the federal budget outlook is unsustainable—and I think we have established that it is—what challenges does this pose for the U.S. economy?

Mr. POWELL. So I would stress, these are longerterm challenges. And I think, ultimately, we will have no choice but to get on a sustainable path. You don't have to pay down the debt, you don't have to balance the budget; what you have to do is have an economy that is growing faster than the debt, and you have to do that for 10 or 20 years. That is how you successfully handle this, other countries have—how we have handled it in the past. And if you don't do it, then you will—over time, not this year or next year—but over time, you will be crowding out private investment and things like that.

Mr. JOHNSON. Okay. Mr. Chairman, I yield back a whole 18 seconds.

Chairman YARMUTH. I thank the gentleman.

I now recognize the gentleman from New York, Mr. Jeffries, for three minutes.

Mr. JEFFRIES. Thank you, Mr. Chairman.

Thank you, Chairman Powell, for your presence and your leadership as it relates to the monetary aspects of the U.S. economy.

Is it fair to say that the manufacturing economy fell into a recession in the first half of this year?

Mr. POWELL. Yes. Well, in the sense that manufacturing output has declined over the course of this year.

Mr. JEFFRIES. And in connection with that manufacturing recession that we are currently in, based on technical terms, have the trade developments here in the United States that you have made reference to in your opening statements contributed to that recession?

Mr. POWELL. I think we would assess that there are a number of factors that are contributing to it. Trade is one of them. It is certainly not the whole story. The others would include just slowdown in global growth around the world, which is itself caused by a number of factors.

Mr. JEFFRIES. And as it relates to the trade developments, is it fair to say that those developments particularly include the ongoing conflict and the retaliatory tariffs being imposed by the United States and China on each other?

Mr. POWELL. So that is our assessment and the assessment of many other analysts, that those developments are weighing on manufacturing activity.

Mr. JEFFRIES. Is there reason to believe that the manufacturing recession that we are currently in could actually present a risk of spilling over into the entirety of the economy?

Mr. POWELL. That is a risk that we monitor very carefully. We don't see that yet. The 70 percent of the economy that is the consumers is healthy, with high confidence, low unemployment, wages moving up, very low unemployment, labor force participation. That is what is driving our economy now, and it seems to be continuing to do so. But we monitor that very carefully.

Mr. JEFFRIES. Now, as it relates to potential adverse impacts on consumer spending, to the extent that consumer goods have increased—and I believe there is some evaluations that have suggested that the average American family is now paying at least $1000 more than they had prior to this retaliatory tariff approach to policy, that if that trend were to continue, is there a risk that the increased cost to consumers in paying for goods could adversely impact confidence, which could then obviously hurt the economy?

Mr. POWELL. It is certainly possible. The amount of tariffs that have been put on our economy and that are now flowing through are not that large in relation to the overall economy. The ones—some of the ones that are proposed, it just gets larger and larger that haven't been put into effect. If you put them all into effect, that would have a bigger effect on the overall economy. But remember, trade policy uncertainty itself is a separate channel through which trade does affect the economy.

Mr. JEFFRIES. Thank you.

Mr. Chair, I yield back 11 seconds.

Chairman YARMUTH. I thank the gentleman as well.

I now yield three minutes to the gentleman from Missouri, Mr. Smith.

Mr. SMITH. Thank you, Mr. Chairman.

Our country is in a period of remarkable economic growth. The policies of President Trump and the previous Republican-led Congress made a bet on the American workers who make up the strongest and hardest working workforce in the world. But it concerns me when we see other countries, our competitors, continuing to attract investment at lower or zero percent rates. We need to ensure our monetary policy bets on our workers as well.

Since President Trump's election, the United States has made waves. We have the lowest unemployment in 50 years, with black and Hispanic unemployment at record lows, 6.4 million new jobs have been created, wages are growing, and President Trump's deregulation efforts have saved the average American family $3,100 in household income. We must promise to continue enacting both fiscal and monetary policy that works for folks back home.

Would you agree that during the last three years, our country has seen economic advances that help low-income Americans?

Mr. POWELL. Yes. I do think that as this expansion has continued, we have started to see people at the lower end of the wage scale get the bulk of the benefits, and that is a great thing to see.

Mr. SMITH. I think in your testimony, you made the comment that low and middle income wage growth was pretty significant in our economy over the last couple of years. Is that correct?

Mr. POWELL. Yes. So it is been—we are in our 11th year of this now. And so in the 9th and 10th and 11th year, we are seeing that. And, again, it is a very positive thing to see.

Mr. SMITH. So you said 11 years. The 9th, 10th, and 11th. Are those the most significant increases in the 9th, 10th, and 11th?

Mr. POWELL. Yes. In fact, what has happened is, as the labor market has tightened, you are seeing more job openings than there are unemployed people. You are seeing historically tight labor markets now. And one of the effects that can be seen in that situation is that companies start to raise the wages not just of those at the top, but all the way through the income spectrum. Again, a very positive development.

Mr. SMITH. That is good. Also a common similarity of the 9th, 10th, and 11th year is a Trump Presidency in those three years has been the common theme as well, with economic policies that have helped with the largest tax cut in the history of the United States, which was passed by the House Republican Congress and Donald Trump, along with the most deregulation that any President has ever had in the history of this nation. So it is good to see that those policies are in effect there.

The Federal Reserve Board has proposed changing its Comprehensive Capital Analysis and Review stress test program and indicated the new rule would be in place for the 2020 test. So far, however, no changes have been proposed. Can you provide a status update on the stress capital buffer proposal and whether or not it will be ready for the 2020 stress test?

Mr. POWELL. So we are working on it, and that is still our intention.

Chairman YARMUTH. The gentleman's time has expired.

I now recognize the gentleman from New York, Mr. Higgins, for——

Mr. HIGGINS. Thank you, Mr. Chairman.

Just for the record, the past three years, the national debt has increased from $19 trillion to $22 trillion. That means that $3 trillion has been added to the national debt since Mr. Trump has been President.

Mr. Chairman, the White House Council of Economic Advisors put out a report upon passage of the 2017 corporate tax cut saying that every American family would receive an increase in household income, recurring increasing household income between $4,000 and $9,000. Is there any evidence that that has actually occurred from the tax cut?

Mr. POWELL. I haven't looked at that precise question. That is something CBO would be very well equipped to do.

Mr. HIGGINS. Well, if the White House Council of Economic Advisors puts out a report like that, I would think that, you know, the Fed would want to monitor the progress that is made there.

Is the United States economy, is it growing—is it currently growing at a rate that is higher than interest rates?

Mr. POWELL. Higher than interest rates? Well, actually, so the long term—it is about the same. If you think about the long-term sovereign rate of the United States, it is roughly equivalent to the growth rate right now.

Mr. HIGGINS. What would an investment—you know, conservative economist Mark Zandi from Moody's Analytics indicates that for every dollar that the federal government gave away in the corporate tax cut, it regained 32 cents. So that is a loss of investment of 68 percent. Whereas, if you invested that in infrastructure, for every dollar that you invest in infrastructure, you would get back in economic growth about a buck-60, which would give you a return on investment of 60 percent.

Given the fact that interest rates are low and economic growth is lower than we had hoped for, would it not make time—wouldn't now be the time to make a major investment in transportation infrastructure?

Mr. POWELL. Well, I would say infrastructure well financed and well thought through, infrastructure can contribute, over long periods of time, productivity and can be a great thing for countries to do, including the United States.

Mr. HIGGINS. Would low interest rates, couldn't—even if you deficit financed infrastructure, given the return on investment, wouldn't that wipe out what you—what you borrow to produce that growth?

Mr. POWELL. So those are the kind of questions that are really your job and not ours. I wouldn't want to comment on how you finance it. But I would just say infrastructure spending in general is something that can contribute to the economy and it is something that I think would be very healthy for our economy.

Mr. HIGGINS. I yield back.

Chairman YARMUTH. I thank the gentleman.

I now recognize the gentleman from Texas, Mr. Flores, for three minutes.

Mr. FLORES. Thank you, Mr. Chairman.

Chairman Powell, thank you for joining us today to talk about the importance of fiscal responsibility. Over the past several years, as you have talked about in your testimony, the spending increases by the federal government have increased substantially. At the same time, our growth in federal revenues has been slower. That said, we have had growth in federal revenues after the tax cuts bill. 2019 is higher than 2018, and 2019 is also higher than fiscal 2017.

As you know, the interest on the debt alone is on pace to exceed $800 billion by 2029, and that is more than we currently spend on either defense discretionary or non-defense discretionary. Our spending habits leave Congress with little room to maneuver in the face of a fiscal downturn. So we have tools—when we get into a fiscal downturn, you have tools that you can use in the case of an economic downturn. But to the extent that the deficit keeps growing and Congress keeps failing to act on this, what does that do to the tool set that the Federal Reserve has to deal with economic downturns?

Mr. POWELL. So our tool set really is—the issue we face is just it is a much lower interest rate environment. We have less room to cut. We used tools other than lowering interest rates during the financial crisis. Some of those tools we think would work in future situations when we are at the zero lower bound, but fiscal policy has always played a very important role in significant downturns through automatic stabilizers and sometimes through discretionary fiscal policy.

And as I pointed out in my remarks, over time—not, you know, sort of for the near term, but over time—less fiscal policy space is going to make it harder for Congress and make Congress less willing to take steps to support the economy at times when that is needed.

Mr. FLORES. Right. I am going to submit a question for the record to ask you what you think are exogenous factors that could surprise us and adversely affect the economy. We will do that for the record.

The Federal Reserve had to engage in some substantial repurchase market activities beginning in mid-September, and then you were actively—the Fed was actively involved early this week. Can you tell us what is causing the liquidity issues that are causing the Fed to intervene? You said they are technical, and I am not disputing that, but I am just wondering. Can you tell us what is underneath that that is causing that activity?

Mr. POWELL. Sure. I want to stress that these are not things that will affect economic outcomes or——

Mr. FLORES. Right, and I am not implying that. I am not trying to say that. I think you are trying to do the right thing. I just need to know what is causing it underlying.

Mr. POWELL. So one big thing is we have been allowing the balance sheet to decline in size, and we stopped that process back in July. And, really, it comes down to the supply of reserves which are something that we create. And we surveyed all the banks and said, how much—what is your lowest comfortable level of reserves. We added that up, we put a buffer on top of it, and we felt we probably were well above the level of scarcity.

And then, in early September, we had a situation where the liquidity—you know, where banks had much more liquidity than they said they needed, and yet it didn't flow into the repo market where rates had gone up quite a bit. It would have been, you know, a nice return for them. They didn't do that. So we are doing a lot of forensic work to understand why. Some of that may be reserve, just the level of reserves needs to be higher than we thought, which means our balance sheet a little bigger. There may also be aspects of our supervisory and regulatory practice that we can look at that would allow the liquidity that we have, which we think is the appropriate level, to flow more freely in the system without, though, undermining safety and soundness.

Mr. FLORES. Thank you. I will follow up on that as you finish your studies. I yield back.

Chairman YARMUTH. The gentleman's time has expired.

I now recognize the gentleman from Pennsylvania, Mr. Boyle, for three minutes.

Mr. BOYLE. Thank you.

Chair Powell, thank you as well. It is said that history doesn't repeat itself, but it does rhyme. And I am increasingly reminded by something that your predecessor, I think three predecessors ago, said in the late 1990s, coined the phrase "irrational exuberance." And the reason why I am increasingly thinking about that is because Chairman Greenspan used that phrase to describe what was going on at the time in the late 1990s in terms of the view of markets constantly going up and the business cycle perhaps, you know, finally being solved. And I am increasingly hearing that now, 20 years later, that we are 10 years into this economic expansion, and that perhaps the normal business cycle of expansion and recession would not follow through. I have to say I am very skeptical of that view. And so I am curious about what your thoughts are and specifically what your outlook is over the next 24 months, whether or not this record long expansion is likely to continue.

Mr. POWELL. These long expansions that we are having now are a characteristic of the last 30, 40 years, and we think that really is because we are no longer facing high and volatile inflation. So the business cycles used to end when inflation would get out of control, and the Fed would raise rates to get inflation back under control, and you would have a business cycle. So that has not been happening, really, for more than a quarter of a century.

So what we have seen is three of the four longest business cycles in U.S. recorded history have been quite recent. So we are seeing that, and if you look at today's economy, there is nothing that is really booming that would want to bust, in other words. It is a pretty sustainable picture. I pointed out the risks, and those are in manufacturing. Manufacturing is declining but not sharply. Manufacturing is more sensitive economically to cycles, so it does decline, so——

Mr. BOYLE. This is perhaps a good segue to the report that the Philadelphia Federal Reserve, the Philly Fed, which I am proud to represent and play such an important role in the overall Federal Reserve system. The report that they released about a week or two ago citing declines in job numbers in a number of states, including in my own Pennsylvania, obviously that report is quite concerning. Could you speak to that as well and what it possibly presents for 2020 and beyond?

Mr. POWELL. I do not know what you are referring to when you say declines in jobs. I mean, I know——

Mr. BOYLE. Last quarter, the Philadelphia Federal Reserve got some media attention released a report, and perhaps I can submit this question to you written and get a reply, but the report that they released showing a decline in jobs in Pennsylvania, Michigan, West Virginia, as well as four other states.

Mr. POWELL. Okay. Yeah. I would just say at the national level, you know, the employment report for October was very solid nationally, but there are—that will vary State to State. I did see that.

Mr. BOYLE. Thank you.

Chairman YARMUTH. The gentleman's time has expired.

I now recognize the gentleman from North Carolina, Mr. Holding, for three minutes.

Mr. HOLDING. Thank you.

Chairman Powell, we are currently in the final negotiations for the U.S.-Mexico-Canada agreement, and according to the International Trade Commission, USMCA would create more than 170,000 new jobs and would increase GDP by about $70 billion. So, hopefully, Congress will come together here in the near term and swiftly pass this important agreement.

We all know that free trade has dramatically changed economies all over the world, and the world's financial markets have become more intertwined and integrated. And it is my belief that if the United Kingdom exits the European Union, we will have a unique opportunity to forge an ideal trade agreement with the United Kingdom. Both of our economies are mature, and we wouldn't be burdened with some of the issues that are holding up USMCA. And this would also be an opportune time to further integrate our financial markets. I am sure you know the United Kingdom and the United States have the largest capital markets, the most important capital markets in the world.

So given, the shared importance of this sector, I believe that smoothing transactions and easing trade between our financial markets would incentivize billions more in cross-border investment, which would significantly benefit the U.S. economy. So, I would be curious to get your thoughts on a potential U.S.-U.K. trade agreement vis-&-vis capital markets in the financial sector and the potential growth to our economy.

Mr. POWELL. Let me say I generally share your perspective that trade can be beneficial to all countries. It can drive productivity. It can drive rising incomes and prosperity, so generally free and fair trade is a good thing.

I don't have a view for you on the U.K. trade thing. I think our capital markets are pretty integrated with the U.K. already, but between the two of us, we really have a big share of the global financial markets, and it is important that that continue.

Mr. HOLDING. I think, further, one of the reasons we have such large capital markets and important capital markets is the United States and the United Kingdom are one of the last remaining entrepreneurial countries. And so I firmly believe that the more we yoke ourselves together vis-&-vis financial services, the more opportunity both of our countries will have. But thank you for your thoughts.

I yield back.

Chairman YARMUTH. The gentleman yields back.

I now recognize the gentlewoman from Connecticut, Ms. DeLauro, for three minutes.

Ms. DELAURO. Thank you very much, Mr. Chairman, and welcome, Chairman Powell. Tax policy is one of the most important tools that we have to address economic inequality and to promote gender and racial equity, but today it does too little. Tax cuts for the wealthy and corporations have played a role in enabling and, in some instances, encouraging those with the highest income and the most capital to accumulate outsized power and wealth.

Some women, and particularly women of color, are less likely to have wealth for a range of compounding reasons. A tax code that preferences wealth over work exacerbates rather than rectifies these disadvantages. Low effective tax rates on the highest income earners widens pay and power disparities between executives and poorly paid workers. By preferencing income from wealth over income from work, including through a lower capital gains tax rate, the tax code amplifies rather than rectifies these inequalities. Should we think about restructuring the Tax Code specifically treating capital gains as wages to close income inequality?

Mr. POWELL. I would say that is a question that is really not one for us, I am sorry to say. We don't support or oppose particular fiscal policies. Those are really for elected Representatives.

Ms. DELAURO. I might also add that there are other instances with regard to the Tax Code, and I will just put them on the record, that really encourage predatory financial practices that impact workers: private equity's role in corporate bankruptcies, including retail chains like Mervyn's and Toys R Us. The Tax Code helps to shape how companies structure their employment, and you have got in the recent TCJA a 20 percent deduction for certain passthrough income enacted in that bill, changes the employee-employer relationship, incentivizes employers to shift workers to independent contractors, so that the Tax Code, in fact, has a very, very large impact on income inequality. Let me just ask you that. Is there an economic case for reducing high levels of inequality, in your view?

Mr. POWELL. You know, I would point to a couple of factors that I think should be of broad concern. One is the relative stagnation of median incomes and lower incomes. We want prosperity to be broadly shared.

The other aspect is low mobility. We think of ourselves, and proudly so, as a country where anybody can make it to the top, but the statistics show that people who are born in the bottom quintile of income or wealth in the United States have less of a chance to make it to the third quintile or the top quintile. So these are not issues that the Fed can really work on, but I think those are important goals that would be, I think, widely shared.

Ms. DELAURO. I would think that our Tax Code exacerbates the very point that you have made.

Thank you very, very much, Mr. Chairman. I yield back.

Chairman YARMUTH. The gentlewoman's time has expired.

I now recognize the gentleman from Utah, Mr. Stewart, for three minutes.

Mr. STEWART. Thank you, Mr. Chairman.

And Chairman Powell, thank you for coming. Seven years is too long. Let's not go another seven. Please come back before that. Two hours just isn't enough. Oh, my gosh. I wish I had two hours with you just myself. There are so many things that we would like to discuss. I have a degree in economics. I don't consider myself an economist, but there are many things I would like to understand that I know you could teach me.

And I am going to make a comment, but I am going to come to two questions, if I could. And if you don't have time to answer them, will you please provide a written response because there are things that I really do want to understand? Just in general, I want to quote a few sentences from your opening statement: The U.S. economy is now in the 11th year of expansion, and the baseline outlook remains favorable: 2.5 percent economic growth last year, 1.9 percent this year. Again, continuing, household consumption continues to rise solidly supported by a healthy job market, rising incomes, favorable levels of consumer confidence, unemployment rate 3.6 percent.

And I could keep going. And the reason I do this, I just think for the American people, I wish they would take your opening statement and read it because there is so much encouraging news there. And for anyone to paint a picture other than this is a very, very positive economy for the American people is just nonsense, and we appreciate your contribution to that.

Now, to my two questions, and they are really just matters of interest to me. It is not necessarily policy related, but you also in your opening statement talk about inflation near the 2 percent objective, and I wish you would explain to us why it is desirable and why it is the goal of Fed policy to have a 2 percent inflation rate. Why not 1 percent or why not no inflation? You know, why is that a good thing for our economy?

And the second question is I understand that your mandate is maximize employment and price stability, and I think that has been true since your inception, but I know that other goals have kind of crept in from time to time where there is economic pressure for these other goals, for example, economic expansion. And could you address the conflict of whether you think that is a good thing or a bad thing to have you be maybe conflicted in what the Fed's policies and their objectives are?

Mr. POWELL. So, on the first question, 2 percent as an inflation target has become the norm for central banks around the world. It is a pretty stable equilibrium, if you will. And the reason for that is, if the inflation target is 2 percent, there is a real return in there too, and that means nominal interest rates will be around 4 percent. That means we have a significant, you know, amount to cut in a downturn.

If you were in—if you had a zero target, for example, for inflation, that would mean that you could be at the zero or lower bound for interest rates a lot, and what we have found is that when interest rates get really low, it can be quite sticky and difficult for economies to escape that. So that is why we say 2 percent and not zero.

Mr. STEWART. So just so I understand, so it is just to provide that buffer for deflation or for——

Mr. POWELL. Yeah. I think if you look at the evidence of the last post-crisis, we are the only major economy that has meaningfully escaped zero.

Mr. STEWART. And my second question, again, if you would elaborate in writing, I would appreciate it.

And, Chairman, I yield back.

Mr. POWELL. You know, we are very committed to our goals, our statutory goals of maximum employment and price stability. We think they work, and they work well to serve the American people, and we don't see any need to change other expand or shrink them.

Chairman YARMUTH. The gentleman's time has expired.

I now recognize the gentleman from Michigan, Mr. Kildee, for three minutes.

Mr. KILDEE. Thank you, Mr. Chairman, and thank you, Chairman Powell, for being here.

Two points that I would like you to comment on. You know, we may not agree on everything, but I strongly disagree with the President of the United States who has at times said that you are naive. I don't believe you are naive. He has said that you don't have a clue. You obviously do. He has also said that he doesn't know who is our bigger enemy, Jay Powell or Chairman Xi. I do, and I suspect most of the people in this room do, and we would separate ourselves from the President's obviously deranged view.

I would like you to offer any opinion you would like on how helpful it is for the President of the United States to, on occasion, attack the integrity of the Fed.

My second point, which follows on some of the questions that have been asked, has to do with the disparity, even if we acknowledge that, obviously, we have been through a period of sustained economic growth. We have not seen that growth experienced uniformly across either the economic spectrum itself. Most of the benefit has gone to the people at the top of the economic ladder, nor geographically, and in some places, unfortunately, are sentenced to be at the bottom of both of those scales. I happen to represent communities like Flint and Saginaw and Bay City and others, that both our poor communities and have been geographically disadvantaged during this period of economic growth and the last. So I am curious about whether or not Fed policy can in any way address the regional and economic disparity or somehow provide support for policy through information that the Fed can provide to policymakers.

I know that the regional banks, that the Boston, Cleveland, and Chicago regional banks have all spent a good deal of time looking at these questions, but I am curious about whether big Fed would be able to take a look at this question and address the disparities, both regionally and across the economic spectrum. Thank you.

Mr. POWELL. Great. Thank you. So, on your first point, I am going to stick with my policy of not commenting other than to say that it is very, very important that the public understands that we do our work on a nonpartisan, nonpolitical basis based on the best thinking, the best analysis. We try to be transparent and explain ourselves, and we don't take political considerations in one way or the other. We serve all Americans in a completely nonpolitical way, and it is important that be understood.

In terms of the disparities, so I think the monetary policy is famously a blunt instrument that operates at the national and international level. We don't have different policies for different regions, but as I am sure you are aware, based on your comment, the 12 Reserve banks are deeply rooted in their communities and do—they perform both a research role and also kind of a convening role around—we don't spend taxpayer dollars or give them away or anything like that, but we will pull together interested groups around issues, regional poverty issues and things like that, and try to, you know, be a constructive force for that, and I think that has worked a lot. I think of the Living Cities project up in the northeast where we are not spending, you know, taxpayer dollars, but we are pulling together people who have private dollars around regions and problems that are important to that region. I think we try to play a constructive role, and I am proud of that role.

Mr. KILDEE. Thank you very much. I yield back.

Chairman YARMUTH. The gentleman's time has expired.

I now recognize the gentleman from Pennsylvania, Mr. Meuser, for three minutes.

Mr. MEUSER. Thank you, Mr. Chairman.

Chairman Powell, great having you with us. The U.S. economy is growing at two times the rate of the eurozone and three times that of Japan. Our economy is strong. Wages are up. We have a record low unemployment, as you have described. The Fed has recently lowered rates from 2.25 to 1.75 with a strong U.S. economy and inflation remaining below 2 percent. In your view, would the lowering of the Fed rate postpone or perhaps avoid a future recession?

Mr. POWELL. Well look, I will say that the U.S. economy is the star economy these days. We are growing at, you know, 2 percent, right in that range, so more than any of the other advanced economies are growing, and there is no reason to think that can't continue. There is no reason to think, that I can see, that probability of a recession is at all elevated at this time. So our forecast is and our expectation is very much one of continued moderate growth, a strong labor market, and inflation, you know, close to our 2 percent objective.

Mr. MEUSER. Thank you. The last two expansions were fueled by rapid growth in key sectors, tech and real estate, primarily. In retrospect, this proved to be excessive and set the stage for reversal and a recession. I don't see any such excesses in this expansion. Do you?

Mr. POWELL. I think that is very well said. I think this expansion is notable for the absence of parts of the economy that are really hot. For example, a hot housing market where prices are moving up, and there will eventually be a slowdown. In the case of the last economic downturn, you know, kind of a bust of a bubble. So we don't have that. We don't see that in the real economy. We see a consumer sector that is very strong. I have talked about manufacturing and export. It's weak, but it is not sharply turning down. If you look in the financial markets, it is the same way. We don't have this notable buildup of leverage broadly across the economy which is troubling from a financial stability standpoint, so I would say that this expansion is on a sustainable footing and that we don't see the kind of warning signs that appear in other cycles yet. Of course, you never really know, but I would say we watch these things very carefully, and that is what we are seeing now.

Mr. MEUSER. So it seems unique, well balanced, and perhaps could last and continue for a while?

Mr. POWELL. In principle, there is no reason why it can't last. At the risk of jinxing us, I would say that, in principle, there is no reason to think, that I can see, that the probability of an downturn is at all elevated.

Mr. MEUSER. Very good. And with competitive interest rates, improved trade agreements, passing the USMCA, which we are waiting on, new China agreement improved, where do you see the GDP going and being sustained?

Mr. POWELL. As I mentioned, our outlook is for continued moderate growth, and you know, I think if you can think of growth as consisting really of two things in the long run, and that is growth in the labor force, and then it is productivity. So we have seen productivity pick up. Labor force growth has slowed down quite a lot as our population has grown older. If you add those two up, you get to a number around 2 percent as a sustainable rate. As a country, we can raise that, but we need policies to do that. So I would say if we see growth in that range, that is kind of broadly my expectation.

Mr. MEUSER. Thank you, Chairman Powell.

Chairman, I yield back.

Chairman YARMUTH. I think your time has expired. I am not sure. Anyway, thank you very much.

I now yield three minutes to the gentleman from New York, Mr. Morelle.

Mr. MORELLE. Thank you, Mr. Chairman, for holding this hearing, and thank you, Chairman Powell, for being here with us today.

I want to focus for a moment on an issue of obvious importance to people throughout the country, and that is the cost of healthcare delivery. In comments you made in February before the Senate Banking Committee, you said the U.S. federal government is on an unsustainable fiscal path. The thing that drives our single unsustainability is healthcare spending. We spend 17 percent of GDP. Everyone else spends 10 percent. It is not that benefits themselves are too generous; we deliver them in inefficient ways. I would not if you could just comment on that. The inefficiencies you reference, if you could give us more detail on that, and are there delivery methods that are more efficient or that the Fed believes would enhance economic growth?

Mr. POWELL. So I was just echoing there my long-time understanding of our overall budget situation and, you know, what really is driving the unsustainability of our budget. I wouldn't get into trying to prescribe answers for you. Again, nobody elected us. We are not really in that role. But if you look across countries, look across the advanced economy nations, you will see that the average is about 10 percent of GDP, 10 or 11 percent of GDP is what countries spend on healthcare. We spend 17 percent, so that is a lot. That is another 7 percent. That is close to a trillion and a half dollars. What do we get for that?

So, if you look at the results, if you look at the health of our population, it is pretty broadly comparable to other advanced economies, so we are not getting better health for this. It is about the way—it is easy to say, hard to fix—but it is about the way we deliver healthcare. It is not that, you know, we are just doing too well and giving people too good health and too good care. No. We are giving pretty average care across the whole population for an advanced, wealthy country. And so I just was making that point, you know, that I think the focus, a very hard focus, but the focus on how to deliver healthcare more efficiently is up to you and a key issue for us.

Mr. MORELLE. And you did—if I might just, but you did mention that benefits themselves weren't the issue, that it is somehow the way that we organize it and the way that we deliver it actually could dramatically—I assume you meant could dramatically reduce the GDP spend of healthcare in the United States.

Mr. POWELL. The studies that look at kind of the benefit package that the United States offers compared to other wealthy countries don't suggest that our benefits are better or have gotten better over time. It is more about the delivery mechanism. At least that's my understanding of the research and the learning on the budget.

Mr. MORELLE. Well, I appreciate that, and perhaps I will follow up, but I am just curious about the macroeconomic implications of spending if the country continues along these trend lines.

Mr. POWELL. Well, I think over the longer term, the debt can't ultimately continue to grow faster than the economy. If something is unsustainable, it will eventually stop——

Mr. MORELLE. Thank you, sir.

Mr. POWELL.——by definition.

Mr. MORELLE. Yeah. Thank you, sir.

Chairman YARMUTH. The gentleman's time has expired.

I recognize the gentleman from South Carolina, Mr. Norman, for three minutes.

Mr. NORMAN. Thank you, Mr. Powell, and I appreciate you coming, and I would echo the thoughts of Congressman Stewart to come back more often. You speak—and thank you for your opening statements on the national debt. One of the issues that we are faced with is mandatory spending. It has grown from 34 percent up to 75 percent today. You hear a lot of talk about, particularly on the other side, the Green New Deal with the price tag of being free, the free housing, free medical care, and the fact that from what your statement was 10 years, which is 120 months, where we meet pretty much the deadline, what effect will all these basically free programs have, and is it really free?

Mr. POWELL. So, I haven't looked at and I am not in a position to evaluate proposed programs, really. That is really not our role, and I wouldn't be prepared to do that. I don't really have the information, you know. I can——

Mr. NORMAN. And is 10 years—take that away. Let's say that doesn't exist. Is 10 years, continuing at our present rate, is that the D-Day that you would see as in Greece, which I think 2008 was 100 percent of the GDP?

Mr. POWELL. You know, I hate to even say this, but I actually think it is much further out than that. We are the world's reserve currency. We are the strongest country. We have the best institutions. We have the best labor force, you know. We have such strengths that I think possibly the day of reckoning could be quite far off. You see countries with much, much higher levels of debt to GDP moving along, and what happens is kind of a slow-motion stagnation as opposed to a financial crisis.

Mr. NORMAN. So "far out" meaning what? What would you—I mean——

Mr. POWELL. You know, it would be a guess. It really would. There is no—no one has been able to predict what it would—there doesn't seem to be a bright line. We know that the United Kingdom in its heyday as a global empire had very high debt to GDP. We know that today Japan has very high GDP, debt to GDP. Again, there is no identifiable line that is crossed. It is just what we know is the more debt, the more debt service, even at these lower interest rate levels, you still have to service the debt. You may be able to service more debt. Nonetheless, you have to service it, and, ultimately, you can't also run big deficits indefinitely.

Mr. NORMAN. So, in short, we don't have an income problem; we have got a spending problem.

Mr. POWELL. Yeah, and that is really right across your plate, not mine.

Mr. NORMAN. Okay. Thank you so much. I appreciate your attendance, and I yield back.

Chairman YARMUTH. The gentleman's time has expired.

This gives me a good segue to promote next week's hearing, which is all about debt, so you will have an ample opportunity to engage fully on that question next week.

I now yield three minutes to the gentleman from Virginia, Mr. Scott.

Mr. SCOTT. Thank you, Mr. Chairman.

Can we get the chart up?

We have had a lot of comment about the Trump economy, and I would just point out that you don't need a pointer to see where the Obama stimulus package came in at about $800 billion. It is right there at the bottom. It stabilized things. In the last 33 months of the Obama Administration, 224,000 jobs were created. In the first 33 months of the Trump Administration, 189, and you can't see where the Trump stimulus package, $1.5 trillion in tax cuts, you don't see any change in trajectory.

The next chart is the unemployment rate. If you look at the red chart, you see the unemployment rate started going down right—you can point to the Obama stimulus package. It has been going down at a fairly good trajectory, and you can't see any change in trajectory based on a $1.5 trillion Trump stimulus package.

And the next chart. And if you look at the deficits, just to show you the trend, every Democrat since Carter ended with a better deficit than they started and actually a surplus. Every Republican, including this administration, a worst deficit after they finished, and we were able to do that fiscally responsible.

Chairman Powell, at a hearing yesterday, you mentioned that lower unionization rates was a potential driver of lower wage growth. How does unionization affect wage growth?

Mr. POWELL. I gave a kind of long answer on a list of factors that would explain why wages haven't gone up more, so I mentioned six factors, and that was one of the six that I mentioned. I said it is a possible factor along with, for example, concentration among industries along with globalization and automation and also along with just changing in the natural rate of unemployment, which has gone down as the population becomes more educated, and also the neutral rate of interest which may be even lower than we think it is, so monetary policy.

Mr. SCOTT. How would unionization have an effect?

Mr. POWELL. So I am not in a position to take a view on that. I just know it is one of the things in the research that people identify as possibly associated with wages.

Mr. SCOTT. Thank you, Mr. Chairman.

Chairman YARMUTH. The gentleman's time has expired.

I now recognize the gentleman from Tennessee, Mr. Burchett, for three minutes.

Mr. BURCHETT. Thank you, Mr. Chairman and Ranking Member. Thank you, brother, for being here.

I have heard Congressman Ron Paul say we are in the biggest bond bubble in history, and it is going to burst. Of course, he was talking about interest rates being too low and below market. What factors do you look at when you decide to decrease or increase interest rates?

Mr. POWELL. When we change our policy rate which is an overnight interest rate that affects other short-term rates and then those play out through the yield curve, we are really looking at setting our policy rate at the level which in the medium term will best support maximum employment and stable prices, so that is what we are looking at. We are thinking ahead because monetary policy works with a lag, and so we try to take that into account. But those are the goals we are always serving.

Mr. BURCHETT. All right. Thank you, Mr. Chairman, I have submitted some questions for the record, but I also wanted to note, since it was announced since this morning that you were going to be here, that my Charles Schwab account went up $2.50. I am not sure if that is an indicator, but I really appreciate you, brother. Thank you.

I would note also that the Father on the floor, a Catholic gentleman—of course, I am southern Baptist—I was asking him about his stocks, and he said he took a vow of poverty, and I told him: Have you seen my Charles Schwab account? Obviously, I have too.

So thank you, brother, for being here.

Chairman YARMUTH. The gentleman's time has expired.

I now recognize the gentlewoman from Washington, Ms. Jayapal, for three minutes.

Ms. JAYAPAL. Thank you, Chair Powell, for being here and for your independent service to our country. What was the rate of inflation in September, and how did that compare to your target?

Mr. POWELL. It is a little below our target, so I would say—I will just talk about core inflation which is a better predictor of the future. It is about 1.7 percent so just below our target.

Ms. JAYAPAL. And the not core but the actual rate was 1.3——

Mr. POWELL. 1.3, yeah.

Ms. JAYAPAL.——when you look at the core.

Mr. POWELL. Yeah.

Ms. JAYAPAL. And is the fact that inflation is still below your target a sign that we are not—that the economy is operating below its potential, its full potential?

Mr. POWELL. It is certainly a sign that in no way is the economy under a lot of—inflation is not under a lot of upward pressure from labor markets being too tight or the economy being too strong, so no. There is no sign, you know, that things are overheating or anything like that.

Ms. JAYAPAL. And some key economists have identified several indicators, some of which you have mentioned in your answers to other questions, that we are demonstrating that we are not at full employment, things like labor share of income remains below prior peaks; the employment rate for prime age workers remains below prior peaks; racial wage gaps, which you have spoken about, are wider than they were in the last expansion. Are you concerned about those factors, and how are you looking at those as you consider policy?

Mr. POWELL. So our assignment from you is maximum employment, so we don't put a number on that. We look at all of the things that you mentioned, labor force participation by age group, by gender. We look at wages. We look at countless, you know, ways to cut wages. We look at all of those things and try to reach a judgment about what is maximum employment.

If you go back 50 years, there was a tight connection between unemployment and inflation. That is no longer the case and really hasn't been the case for some time, so I think we bring significant humility to the question of what is the level of maximum employment. I think right now, we think we are in the neighborhood, but we have no reason to think that the current level of unemployment is unsustainable.

Ms. JAYAPAL. Your predecessor, Alan Greenspan, said this: There is little doubt that unauthorized immigration has made a significant contribution to the growth of our economy. Would you agree with that statement?

Mr. POWELL. So I will have to start by saying that we don't do immigration policy. We don't give advice on immigration, but I would say you can think, as I mentioned earlier, you can think of potential growth as including labor force growth and productivity, output per hour. That is really the two things you can break down growth into.

In the United States. Labor force growth has declined significantly. It is now about a half a percent, and about half of that or a little more than half has been from immigration. So, if we are going to grow more as a country, that is just something those of you who do have responsibility for immigration policy, not us, should know that that is a factor worth considering.

Ms. JAYAPAL. And so, for example, if we were to have very restrictive immigration policy, it would dramatically affect our labor growth numbers and affect our economy. Is that correct?

Mr. POWELL. I think with an aging population, labor force growth is moving down. And in a lot of countries around the world that are further along in the demographic curve, labor force growth is negative, and we don't want to be in that place. We want to have a growing labor force, I think, and so I will leave it at that.

Ms. JAYAPAL. Thank you very much.

Mr. POWELL. Thank you.

Chairman YARMUTH. The gentlewoman's time has expired.

I now recognize the gentleman from Oklahoma, Mr. Hern, for three minutes.

Mr. HERN. Thank you, Mr. Chairman, Ranking Member Womack.

Mr. Chairman, thank you for being here today. It was great to hear that your grandmother is from Muskogee, Oklahoma, a city in Oklahoma that I know very well. So it is great to hear that. Great roots.

We talked a lot about the U.S. labor market, and as job creator for my entire life, both entry level and executive level, I know how important it is to put people to work. And we have talked a lot about this low participation rate. While it has ticked up a little bit, historically in the last 20 years, it has basically been on a pretty steady decline from 67, which is kind of our peak back in the 1999–2000 timeframe.

If we were to get back to that point in time because you have mentioned how important it is to keep the labor force working in full and wages or prices stagnant or at least growing at a 2 percent rate or so, what would it look like for us economically right now on our deficits and debts and economic growth if we were back around that 67 percent level of job participation?

Mr. POWELL. Well, you would have a significantly bigger economy. I mean, if you added 4 percent to, you know, your participation rate, that is about a 6 percent increase in output. It would be quite substantial if we were to find ways to get back to that level. Of course, the population's a lot older now, which means lower participation. On the other hand, it is more educated, so we—you know, education links closely to higher participation. So, I think it is a key goal.

Mr. HERN. So, really, we have only got really three avenues. We have a lot of workers out there, 6 million plus, 7 million plus jobs available. We have either got to start having more babies in America very quickly, or we have got to help our folks that we have 20 million additional people we have that are in the government assistance program from where we were back in those days that could be very participatory in the job participation rate, or we have to, as my colleague said, work on our immigration policy so that we have more legal immigration in America to help fill those jobs so that we can accelerate our growth.

What actions would you anticipate the Federal Reserve would need to take to accommodate this economic growth? Is there an interest rate you have to look at, and how does that affect us?

Mr. POWELL. So that is in the nature—if you had a significant increase in participation, that would be a very positive supply shock, which means there would just be a lot more labor supply and growth coming on the market. It would be very—the opposite of inflationary. It would—you know, I think we would love to see that happen, and of course, it would lead to higher growth and be a positive thing for everyone. It wouldn't have any—we certainly wouldn't be tightening policy in reaction to that.

Mr. HERN. You mentioned—and I have got 19 seconds. You had mentioned that you don't ascribe to the theory, the modern monetary theory, that deficits and debts do matter, and we need to be fiscally responsible for those, and I appreciate your comments to that as well because I, as a business person for many years, believe deficits and debts do matter. Thank you, sir.

Chairman YARMUTH. The gentleman's time has expired.

I now recognize the gentleman from New Jersey, Mr. Sires, for three minutes.

Mr. SIRES. Good morning, Chair Powell, and thank you for being here. Continuing on the theme of immigration, I think you stated at the Senate Banking Committee hearing about the impact of immigration on the housing shortage. I think the statement was that you stated that immigration policies is one of the factors that are holding back home builders and challenging affordability. Can you expand a little bit on that?

Mr. POWELL. I don't remember that comment, to be honest, but it may be—honestly, I can't remember what the connection would be.

Mr. SIRES. Well, you have also in a written response to Senator Cortez Masto stated that reducing immigration could slow the economy over the long run by limiting growth in our labor force.

Mr. POWELL. Yes. Well, I think—and that could play into housing, you know. Demand for housing is—I think the home builders are, you know, always looking to build more homes, and that is an important part of the economy, which is now, by the way, contributing positively for the first time in a while.

Mr. SIRES. And could you expand on the damage that could be done to our economy if we drastically limit all immigration from low skill to high skill?

Mr. POWELL. Yes. So, as I mentioned, you know, we as a country, there are really only two ways you can grow. You can work more hours, which is really a function of growth in the labor force, and you can have more output per hour, productivity. You can really look at growth as consisting of those two things.

If you go back to the 1960s, the U.S. labor force was growing 2.5, 3 percent. So you start with that and you add productivity, and you get these very healthy growth numbers that we have. Now we have got trend growth rate, given our aging population of about five-tenths per year. So you can add productivity to that. Output per hour, the trend might be 1.5 percent, something like that. You add those two numbers up, you get to a 2 percent growth economy.

Now, if we want to do better than that, there are two things we can do. We can get higher labor force participation, higher population growth, or we can get higher productivity. It is harder to get higher productivity. It seems to follow its own—you know, no one has had a great success in predicting what drives higher productivity. It is the evolution of technology, and technology being—you know, flowing through the economy over time. That is what drives productivity. So you need things that help that, but, ultimately, you know, a growing workforce is a source of growth, and immigration can be part of that.

Mr. SIRES. Immigration—low-skilled immigration would add to that.

Mr. POWELL. I think—yeah. I mean, I think that there is a lot of research on all of those issues, and I think generally the finding is that, across the income spectrum, immigration can have those effects, yes.

Mr. SIRES. Thank you very much.

Chairman YARMUTH. The gentleman's time has expired.

I now recognize the gentleman from Texas, Mr. Crenshaw, for three minutes.

Mr. CRENSHAW. Thank you, Mr. Chairman, and thank you Mr. Chairman, for being here.

I want to address three issues that were brought up, three concerns: infrastructure, inequality, and trade. What is interesting about the infrastructure issue is that the claim earlier was that tax cuts effectively prevent the government from investing in infrastructure. It begs the question, why don't we just focus as a Congress on infrastructure? But in your statement, you said that last year's growth was led by strong gains in consumer spending and increases in business investment. That is still true, according to your statement, right?

Mr. POWELL. Well, it was really led by consumer spending rather than business investment.

Mr. CRENSHAW. Okay. It turns out that business investment can be something that drives the economy other than just government investment.

Mr. POWELL. Yes.

Mr. CRENSHAW. On inequality, would it also be true that wages have grown much faster in the bottom quintile of earners than in the higher quintile in the last few years?

Mr. POWELL. In the last two years, yes, that is the case. Very welcome.

Mr. CRENSHAW. And on trade, there was a lot of concerns brought up about trade unpredictability associated with trade confrontation with China. It brings up the issue of the USMCA and what this Congress should focus on. According to the International Trade Commission, passage of the USMCA would create 176,000 new jobs and increase gross domestic product by $68 billion. Can you expand on that comment, and how would passage of the USMCA impact the U.S. economy?

Mr. POWELL. I wouldn't comment on the particular estimates on the bill. I will, though, say that passage of the USMCA would remove uncertainty and I think would be a very constructive thing for, you know, the economy from that standpoint.

Mr. CRENSHAW. Can you expand on that? How so, exactly? I mean, how does predictability and certainty provide benefits for the U.S. economy?

Mr. POWELL. I spent, you know, most of my career working with companies and at companies in the private sector, and I think companies generally like a private—they like a settled rule book. They like to know what the rules are so they can act. And if you are spending your time dealing with changing rules, you are not spending your time growing your company or thinking of what is the next—where do I need to do to get to to beat my competition and that kind of thing. So I just think—which is, again, not a comment on trade policy or anything like that, but just reduction in uncertainty. Uncertainty is huge for businesspeople making decisions, and there is always the ability to wait, to just wait to make a decision if you think something's going to be resolved. So a lot of that probably gets—it happens around trade issues, and then when it gets resolved, people will be able to over time, you know, act on settled rule book.

Mr. CRENSHAW. Thank you, Mr. Chairman, and thank you for pointing out that our economy would be better off with the passage of the USMCA, and our economy would be better off with increased business investment, and our economy is better off because the lower quintile of earners' wages are growing higher than they have before and much higher than the higher quintile of earners. Thank you.

Chairman YARMUTH. The gentleman's time has expired.

I now recognize the gentleman from California, Mr. Peters, for three minutes.

Mr. PETERS. Thank you, Mr. Chairman, and Mr. Powell, thank you for being here today. The recent expansion of the deficit is a result of a mix of things: budget deals, an aging population, and big tax cuts largely benefiting the wealthy. As Congress considers policy changes in the next couple of years, appreciating your focus is not policy, but where do you think that should be on our list of priorities? And over what time period would be most prudent for us to act on the deficit?

Mr. POWELL. Well, I think that the most successful plans to get back on a sustainable path are those that take place consistently over a long period of time. It is not something that it is wise to make sharp cuts and increase taxes, you know, cut spending really sharply. It is something that should be done consistently and stuck to over a long period of time, and that is what seems to work over time.

Mr. PETERS. Start now and be consistent would be——

Mr. POWELL. Yes. I mean, ultimately, there is no substitute for having a broad national commitment to being on a sustainable path, and that has to have the public support, and it has to—you know, there have to be leaders who are willing to stick to that path over a long period of time.

Mr. PETERS. The Treasury reported we spent $376 billion on net interest outlays, which is about 8 percent of federal outlays, 2 percent of the GDP, the highest level since 2001. We risk spending more on paying off our debt than we spend on children by next year, and we are projected to spend more on interest than we spend on our national defense by 2025. What are the consequences both lawmakers and the public face as our debt rises and interest payments increase? And, particularly, how does this affect our ability to react to emergencies?

Mr. POWELL. Well, the first thing is that, over time, as you spend more time servicing debt, those resources are not going to be available to future generations to educate themselves and their children, to maintain good health.

Mr. PETERS. Build infrastructure.

Mr. POWELL. Build infrastructure. All the things we want to be using taxpayer dollars for to compete internationally and to build a great country. So that was—sorry. What was the second?

Mr. PETERS. The focus—the ability to respond to emergencies——

Mr. POWELL. So, the other—sorry. The other piece of is that—and this is not the case today. There is fiscal space to react today, and there will be for some time. But, over time, fiscal policy has been a key way that the government has reacted to support the economy in times of weakness. Over time, as debt grows, it may be that lawmakers are less willing or even less able to do so. And in a world of very low interest rates, it is very important that Congress be able to support the economy because, you know, we won't have as much room to cut. We will be using all of our tools aggressively, but we will need fiscal help, possibly.

Mr. PETERS. Finally, in my last few seconds, I just want to acknowledge the significant progress you have made in becoming more transparent at the Fed but also to reinforce that it is important for your continued independence to be maintained, and you will certainly continue to get that support from me. Thank you.

Mr. POWELL. Thank you.

Chairman YARMUTH. The gentleman's time has expired.

I now recognize the gentleman from Georgia, Mr. Woodall, for three minutes.

Mr. WOODALL. Thank you, Mr. Chairman.

And thank you, Mr. Chairman, for being here with us today. I want to pick up where Mr. Peters left off on debt. You mentioned that we hadn't seen any booming sectors in the economy that might lead to a bubble burst. I would have said sovereign debt was one of those booming sectors over the last decade, in our case, increasing from less than 70 percent of GDP to north of 105 percent of GDP. You said no notable buildup in leverage. I know you were talking about private sector leverage. That is a substantial leveraging of the public sector. Can you speak to that bubble and concerns about sovereign debt around the globe?

Mr. POWELL. Well, what is interesting about it is, as the supply of U.S. debt, risk-free debt, the most risk-free debt in the world has increased dramatically. The interest rate that people are demanding has gone down. So models would have said you provide more of the product, that will drive the price down; that will drive the interest rate up. The opposite has happened. So what you see is a situation where, frankly, interest rates around the world have been declining for 30, really, 40 years, and that includes ours, and it is a bunch of things. It is just lower inflation. It is demographics where people are saving more relative to investment, and that drives the returns down. So we are in a world of much lower interest rates, and I think there seems to be driven by long run structural things, and there is not a lot of reason to think that will change.

Mr. WOODALL. We have had good partners in finding purchasers for that debt, you all being one of those. You mentioned changes as purely technical measures when referring to increased purchases over the next two months. Dr. Stephen Williamson observed that that reverses about two-thirds of the unwinding in the next two quarters—pardon me—reverses about two-thirds of the unwinding of the Fed balance sheet and offers foreign repos as another place to look. If the answer to maintaining stability is larger reserves, one can find those in a number of different places. Sometimes you make our job very easy here and mask some of our failures with your good work. Can you speak to why being involved in treasuries was a superior choice to going into the foreign repo market to deal with the liquidity?

Mr. POWELL. Well, so we buy—we are only allowed to buy treasuries and—you know, treasuries and agencies is what we can own, right, so we buy those. That is how we create reserves as you know, obviously. So we do that. It is really nothing to do with helping to fund the federal government. It is just that what has really changed since before the financial crisis is that we have imposed very high liquidity requirements on particularly the largest banks, and they own—they have to own lots of highly liquid assets. They choose to own reserves, or—sorry—you know, treasuries and reserves which is just cash, frankly. That is all a reserve is. It is just a cash on deposit at a Reserve bank. And that is why the demand for revenues is so high now is because of those reserve—I am sorry—those liquidity requirements imposed on banks. It has never had anything to do with financing the federal government, and our ownership of treasuries is not a major part of the outstanding Treasury debt.

Mr. WOODALL. That speaks to our partnership, but does it speak to the preference of——

Mr. POWELL. Yeah.

Mr. WOODALL. I suppose the Williams' comment would be that if more reserves is the answer to controlling the overnight interest rate, that could be achieved through reducing the size of the foreign repo pool in the Treasury's general account, which is twice the size of the Treasury buy that the Fed is planning.

Mr. POWELL. And those are things we are looking at. We are looking at all of the—you are right. That is the liability side of the Fed, and we are looking at everything. So the Treasury general account and the foreign repo pool both are beneficial to financial stability, so we are looking at things. We are looking at things that we can do, and there are plenty of things that we can do to match up the supply and demand for reserves. And, again, this is not something that will have any macroeconomic implications.

Chairman YARMUTH. The gentleman's time has expired.

I now recognize the gentlewoman from California, Ms. Lee, for three minutes.

Ms. LEE. Thank you very much, Mr. Chairman.

Thank you, Chairman Powell, for being here. Let me go back to follow up to what Congresswoman DeLauro mentioned in her questioning. In what ways does the Fed—and recognizing you don't comment on nor do you set policy—but in terms of just your economic analysis as it relates to income and wealth inequality, especially, and I want to talk about race a little bit, communities of color. How do you see the long run economic growth as it relates to the income gap between Black and White Americans? For example, it remains almost at the same exact level as in 1960. According to a report from the Institute for Policy Studies, the median black family today owns $3,600, just 2 percent of the wealth of median White families. Also, the median Latinx family owns about $6,600 in terms of the wealth, which is about 4 percent of the median White family.

Of course, a lot of this may have to do and probably has to do with the subprime crisis as it relates to the loss of equity because that is primarily the way people of color acquire their wealth. They don't play much in the stock market because we don't have that kind of wealth. And so now, you know, we are way at the bottom of the barrel.

And so, in terms of just economic policy, do you ever view race as a factor when, in fact, the data has shown that the greatest income gaps in wealth and equality lies within, unfortunately, the black and Latino communities?

Mr. POWELL. So, in our work, and you may have noticed this, we don't just talk about the national aggregate numbers. We do talk about those, and they are very good, but we also talk about the disparities because we want to remind ourselves, frankly, that, you know, prosperity isn't experienced in all communities, you know. Low- and moderate-income communities in many cases are just starting to feel the benefits of this expansion, which is now in its 11th year. And we realize that, and so we say that, and you know, we do serve all Americans. We want to remind ourselves of that and also remind the public of that.

I think you are exactly right about the housing. So what happened in the housing crisis was an awful lot of people lost their homes and lost their equity, in any case, and coming out of that, that is the one place in the economy where we made credit much less available, was to people with lower scores, lower credit scores. And that did,—wasn't by intention, but that was clearly a decision that was made, and it did—it seems to have an effect. It has a disparate effect on minority communities. So that is part of it.

In terms of broader policy, you know, I think economic growth,—I think you are seeing very positive things happening now because of this long expansion. That is what we are hearing from low- and moderate-income communities, and so economic growth can be a good thing.

Ms. LEE. It can be a good thing, but unless we view economic growth with race as a factor, it is not going to work because, as I just cited, African American families in terms of the wealth gap, we are still where we were in 1960. And so, I hope that yourself and the Federal Reserve really understand that we can't just talk about income inequality without talking about racial and income economic inequality. Secondly——

Chairman YARMUTH. The gentlewoman's time has expired. I am sorry.

Ms. LEE. Oh, okay. Thank you very much, and thank you for your response, Chairman Powell.

Chairman YARMUTH. I now recognize the gentleman from Texas, Mr. Roy, for three minutes.

Mr. ROY. Thank you, Mr. Chairman.

Chairman Powell, I appreciate you taking time to be here visiting with us today. My understanding—and, unfortunately, I was over in another hearing over in the Veterans Affairs Committee, so I came over here. But in getting an update, I understand that my colleague from Texas, Mr. Crenshaw and you had a bit of exchange on modern monetary theory. I wonder if you can confirm for me that modern monetary theory is problematic or just wrong in terms of this idea that we can just continue to spend into oblivion. Is that—would you agree with that?

Mr. POWELL. I am not a student of the overall,—I mean, it is hard to pin down exactly what is meant by the term, but I would say the idea that countries that borrow on their own currency can't get into trouble I think is just wrong, and the idea that debt doesn't matter is also wrong if those are appropriately ascribed to that theory.

Mr. ROY. Well, I appreciate that, and I do think they are.

You are aware, as much as anybody, that we have crossed the threshold of $23 trillion of debt that we are currently holding. Would you say roughly our annual budget is about two-thirds mandatory and a third discretionary? Does that sound right to you?

Mr. POWELL. Yes.

Mr. ROY. And one thing that is often raised here is that we have got to address mandatory spending, and I agree with that. We have got to have reforms to so-called entitlement spending, Social Security and Medicare and so forth, in order to get our hands around spending. Are you aware of any serious proposals today being pushed by the majority or this body that is likely to be enacted into law that is going to impact mandatory spending in a significant way over the next five to 10 years that is going to seriously reform Medicare or Social Security? Are you aware of anything like that going on today?

Mr. POWELL. You know, it is not something,—I do not track those kinds of things carefully, but I would say that, as I mentioned earlier, the problem we have is really around healthcare delivery. That is where we spend 17 percent of GDP. Other comparable countries are spending 10 percent of GDP, and we are getting broadly comparable results. Seven percent of U.S. GDP is close to a trillion and a half dollars that we spend every year, and we don't get anything for it. So that is where I would be looking. It is not that we are delivering too good health, by the way. We are delivering pretty average health, and we are spending a trillion and a half more than we need to spend to do that.

Mr. ROY. Well, that is fair, and there are a lot of reforms that we can embrace to fix healthcare, and we should, but currently I would say and suggest that I am unaware of any serious proposals to deal with Medicare and Social Security spending that arrives to that end. Therefore, do we not need to address the one-third of our annual budget that is discretionary spending? Would you agree that it would make sense for our country, for us to be freezing spending or holding spending in check while we try to grow the economy dramatically in order to increase revenues and grow out of our debt, much like we did after World War II, and then be able to deal with reforming mandatory spending in the long run, but that we need to check spending in order to have a strong—be able to manage and grow out of our debt through economic growth?

Mr. POWELL. You know, those are issues you have got to face, and I would not,—you know, there are different items in discretionary spending. A lot of those are things that add to the longer run economic growth of the United States, but those are not issues for us. They are really issues for you.

Chairman YARMUTH. The gentleman's time has expired.

I now recognize the gentleman from Nevada, Mr. Horsford, for three minutes.

Mr. HORSFORD. Thank you, Chair Powell. You have been very vocal recently about the threat of income inequality and declining of economic mobility. In February, you identified income inequality as the biggest economic challenge facing the United States in the next 10 years, noting that income growth for low- and middle-income Americans has slowed while growth at the top has been strong. You note this chart here at the top 1 percent has seen nearly 300 percent increase in wealth since 1989 while the bottom 50 percent has remained flat. That is a pretty clear chart despite my colleagues on the other side. I think they tend to mistake wages for overall wealth.

You said yourself that we need policies that make sure prosperity is widely shared among everyone, and while research has shown that low wage workers are especially responsive to labor market conditions, both in terms of their wages and their hours worked, these workers really have the most to gain in tight labor market conditions and also the most to lose. So, while I understand the Fed may not set policy regarding income inequality, what are some steps you believe Congress can take to address this issue?

Mr. POWELL. Well, I do think, broadly speaking, we need to—we want prosperity to be widely shared across all spectrums of society, and I think a lot of that comes from education and training. There are a million things, and I am not the person to advise you on those. I will mention one, though, that—we had a group visit us last week at the Board of Governors. It was six or seven people who were involved in apprenticeships, and they had partnerships with major manufacturers in their States, and these are very successful programs. They really are. They are taking kids out of high schools and starting them there. They get good jobs. They keep those jobs. They grow up to be adults.

Mr. HORSFORD. Thank you, Mr. Chairman. I am very familiar with those programs. I ran them for 10 years before I came to Congress, and I agree——

Mr. POWELL. Perfect.

Mr. HORSFORD.——those are what will achieve, but the training leads to better paying jobs and future career mobility, and that is really what can get to this issue, which is the stagnant wage growth.

I want to turn to another issue really quick. Trade tensions with China continue to threaten the health of our economy. The U.S. Chamber of Commerce indicated that Nevada has incurred extremely significant damage to its economy because of the President's trade war with China. In fact, $510 million of Nevada's exports have been targeted for retaliation by China including copper, milk, and measuring instruments. On average, American households are being impacted about $1,000 because of this trade war. Are you aware that Nevadans and other families across the country are feeling the impacts of the trade war through higher prices? And what specifically is the Fed prepared to do if this trade war continues to hurt the people that I represent in Nevada and those across the country?

Mr. POWELL. We don't comment on particular trade policies. We are not an advisor to anybody on trade. It is not our mandate. Our mandate is maximum employment and stable prices. Anything that can interfere with or promote our ability to achieve those mandates, though, is relevant for monetary policy. So, this year we have been calling out—along with slowing global growth and below target inflation, we have been calling out trade developments as something that seems to be weighing on economic activity, particularly around manufacturing and export. The tariffs that we are feeling at the local level can be very painful for people, but they haven't really been affecting the overall economy in a large way at this point.

Mr. HORSFORD. I yield back. I know it is affecting the thousand people who are losing their jobs in Yerington in the northern part of my district.

Chairman YARMUTH. The gentleman's time has expired.

I now recognize the gentlewoman from Illinois, Ms. Schakowsky, for three minutes.

Ms. SCHAKOWSKY. Thank you, Chairman Powell, for being here today. As you noted in your testimony, the economic expansion is being driven by and sustained by consumer spending. We have seen the Federal Reserve cut interest rates three times since this summer to boost demand, or consumer,—and has this helped to boost consumer spending?

Mr. POWELL. We do think that our rate cuts, and more than that, really, we have been shifting to a more accommodative stance all year long, first of all, by not cutting rates at all and then by being patient and then cutting rates. And so you see that in housing. You begin to see housing contribute. You see it in durable goods purchases, automobile purchases, spending generally by consumers. So we do think our policies are supporting consumer spending.

Ms. SCHAKOWSKY. Thank you. I understand that cutting interest rates is a main tool used to boost demand, but there are other approaches that we could take. For example, a higher minimum wage, I am talking about us, would raise the income of low-income families who are more likely to spend whatever they earn. So, given the need for increased demand, do you think that increases in the minimum wage have macroeconomic benefits and help the economy operating at its potential?

Mr. POWELL. I think questions about the minimum wage are really for you. We don't take a position on that, you know. The research shows that, as some people get higher wages and some people, there will be some job loss, particularly from a large increase in the minimum wage. So I think that is a balancing thing that really is for elected people rather than for us.

Ms. SCHAKOWSKY. So, besides the one tool that you have used, lowering interest rates, what else can best support household spending going forward that is within your purview?

Mr. POWELL. Well, I think we try to keep the financial system on a sustainable, highly capitalized basis so banks can continue to provide credit in communities. We think that is an important thing. I think not now, but if there were to be a significant downturn, we would have tools other than interest rates to use to support demand, including the tools that we use during the financial crisis, forward guidance and large-scale asset purchases, potentially others.

Ms. SCHAKOWSKY. I have another question that I may be able to get the question in, but I can put it in writing to you to get the answer. I was heartened by the Fed's recent announcement that it will finally create its own real-time payment system which will help low-income families save billions of dollars each year in overdraft fees and exploitive check cashing and payday lending costs. At the same time, I am discouraged that there is a five year delay in implementing the system. So,—maybe a couple of seconds,—why would it take five years?

Mr. POWELL. We don't think it will take five years.

Ms. SCHAKOWSKY. Oh, okay.

Mr. POWELL. We are thinking three or four. We want to do it right, you know. This is a complicated project. It is very important. It is a very high priority for us. Getting it right the first time is key, so we want to have it up and running within, you know, three to four years.

Ms. SCHAKOWSKY. Thank you.

Mr. POWELL. Thank you.

Chairman YARMUTH. The gentlewoman's time has expired.

I now recognize the gentleman from California, Mr. Khanna, for three minutes.

Mr. KHANNA. Thank you, Mr. Chairman.

Thank you, Chair Powell, for your service to our country. I appreciated your eloquent comments earlier about how your only agenda is nonpartisan in the interest of what is in the national well-being. Given some of the disinformation on social media, I thought you could take this time to assure the American public that you have America's interest more at heart than Chairman Xi Jinping.

Mr. POWELL. Well, I will just say that I think it is important that Americans understand that we serve all Americans in a non-partisan, nonpolitical way, that we try to deploy the best thinking and the best analysis, and we will make mistakes. We are human, but we will not make mistakes of character.

Mr. KHANNA. According to the Federal Reserve data, financial accounts for the United States, 87 percent of wealth invested in the United States by Americans is in the U.S. Only 2 percent of U.S. wealth is in the Cayman Islands. Only 1.5 percent of U.S. wealth is in U.K. Only 13 percent of U.S. wealth is actually overseas.

A second statistic from the Federal Exchange is that U.S. debt and equity markets, global U.S. debt and equity markets, are about 38 percent of world markets. This is more than the EU, and it is four times more than China. Given these comments, would you agree with me that the United States is by far the best place for investment?

Mr. POWELL. Yes. Absolutely.

Mr. KHANNA. Now, I know you can't comment on particular policies, and I respect that, but you know, when I have friends who, when President Trump was elected, said: If President Trump ever gets elected, we are going to leave the United States.

Guess what? They are still in the United States. And you hear all of these people saying: If we ever have a wealth tax, we are going take all our money outside the United States.

My view is they are still going to have their money in the United States because it is the best place for investment. And without commenting on whether a wealth tax is a good idea or a bad idea, just as an economist, could you comment on if there were a 1 or 2 percent wealth tax, do you really think that 87 percent number would drop dramatically?

Mr. POWELL. You know, there is kind of a bright line that we have to observe with something like that. That is clearly something that is in the mix politically right now, and it just would be really a disservice to my institution for me to weigh in on that, I am sorry to say, Mr. Khanna.

Mr. KHANNA. I appreciate that. But you would agree that we have a lot of comparative advantages compared to other countries in terms of investment here?

Mr. POWELL. Strongly agree.

Mr. KHANNA. That is my questions.

Chairman YARMUTH. The gentleman's time has expired.

I now recognize the gentleman from California, Mr. Panetta, for three minutes.

Mr. PANETTA. Thank you, Mr. Chairman.

And, Chairman Powell, good morning. Thank you for doing this Capitol Hill tour. I know you were up here yesterday as well. Obviously, a big topic that you have been talking about today and yesterday was reducing the nation's debt, and I appreciate you addressing that topic. It is understandable considering that, as a share of the economy, the debt held by the public is projected to grow from 87 percent this fiscal year to 95.1 percent in fiscal year 2029. What you said yesterday was it is just the case now that the debt is growing faster than the economy, the nominal GDP. You then went on to say and ultimately in the long run, that is just not a sustainable place to be. Can you elaborate on that?

Mr. POWELL. Yes. I mean, the point is that you don't have to pay the debt off. You don't have to balance the budget in any particular year. You just have to have the economy growing faster than the debt. And that should happen over a long period of time, and that is how you successfully de lever.

Mr. PANETTA. When you say "long period of time," what are you talking about? Narrow that down.

Mr. POWELL. Ten, 20, 30 years. If you look at the United States after World War II, a great example. The U.S. after World War II spent a lot of money to win World War II, right. Appropriately so. A multigenerational benefit from that. But it took until, you know, 30, 40 years, I guess, to—well, I am not sure where debt troughed out as a percent of GDP, but it went down gradually over a long period of time.

Mr. PANETTA. Now, as you know well, I am sure there is an economic theory that says that we need to spend money during a recession to return our economy to normal. But if cutting spending or raising taxes during a recession is unwise, when is an appropriate time to be making structural reforms to reduce debt growth?

Mr. POWELL. Well, I think it is when the economy turns down, spending goes up because all the benefit programs and things like that and tax revenue goes down. That is just natural. And when the economy is strong, I think those are the times when we can take a longer view and make structural changes, you know, that will put us on a better footing longer run.

Mr. PANETTA. Okay. In the six quarters since the 2017 tax law was passed, the GDP grew at an annualized rate of 2.5 percent. But over the six quarters before the tax law was passed, the GDP grew at a slightly faster pace of 2.6 percent. If you could, Mr. Chairman, in your view, what were the major factors that caused that slowdown since the tax law was passed?

Mr. POWELL. You know, it is very hard to identify, you know, the factors overall, but I would say that one of the biggest things that has changed is that the global economy was, 2017 was a year of synchronized global growth around the world. Europe actually grew,—it was a great year for Europe, a little bit faster than we did. Since the middle of 2018, we have had a synchronized global slowdown in growth, and we feel that through trade and other channels, financial. So that is a big piece of it, of the story. And so it is hard to break,—it is hard to say this caused this part and this caused the other part.

Mr. PANETTA. Okay. Thank you, Mr. Chairman.

Mr. Chairman, I yield back.

Chairman YARMUTH. The gentleman's time has expired.

I now recognize the gentleman from North Carolina, Mr. Price, for three minutes.

Mr. PRICE. Thank you, Mr. Chairman.

Welcome, Mr. Chairman, to the Budget Committee. We appreciate your candor and forthrightness in helping us understand the fiscal and monetary scene that is opening before us these days.

I want to harken back for a moment historically to the comprehensive budget agreements that we concluded in the nineties, the bipartisan agreement of 1990, the Democratic heavy lifting in 1993, and a much lesser but still important bipartisan agreement in 1997. On the face of it, those budget deals had a good impact. The economy was very healthy. We balanced the budget for a four-year period, paid off something like $500 billion of the national debt. I wonder if you wish to comment on that, the impact of those budget agreements on our fiscal health, on our capacity to compensate for an economic downturn when it came, on our economy generally, I would welcome that. But I want to also ask you about the consequences of not having comprehensive agreements for now 20 plus years. We have had massive tax cuts, most recently in 2017 with a net cost of $1.9 trillion to the Treasury over 10 years. I wonder if you could comment in particular on that question of the kind of slack we have to deal with a downturn. This cut came during a period of economic recovery. It gave what some people have called a sugar high, but where has it left us now when a real downturn comes?

Mr. POWELL. I will just briefly comment that I was actually serving in the Treasury Department in 1990 under President George H.W. Bush when the tax—when that agreement was reached. It wasn't my area of the Treasury, but it was politically unpopular, but I think history has treated President Bush very well, and appropriately so, and others who were involved in that process for stepping up and setting things up on a much more sustainable basis. And I think that flattered,—you know, that put the incoming Clinton administration in a better place than it would have been without it, so that's one——

Mr. PRICE. And the Clinton Administration learned in its own way that this was not popular. This kind of activity was unpopular. I certainly learned it in my district, but I think those votes,—I look back on that, and I think those are among the best votes we ever cast.

Mr. POWELL. I think history has been kind to those who do those kind of things. I think in terms of slack, we have less slack. Sorry. In terms of—I think you were asking what, you know, ability to respond to a downturn, really, not slack, but the ability to respond to a downturn. We have a little bit less because rates are lower now. We can use our unconventional tools and will do so aggressively as appropriate, if appropriate, but I think it is also important that Congress retain a level of fiscal space so that you can react with fiscal policy, particularly in the event of a larger downturn, which we don't foresee right now. But congressional action has been a part of those kinds of things, and fiscal policy is very powerful in supporting demand in a weak economy.

Mr. PRICE. Wouldn't you think that a tax cut that nets $1.9 trillion in losses would—or shouldn't be enacted at a time of economic health and growth, or should it? I mean,—where is our capacity now to respond to those downturns, both in terms of compensatory spending and tax cuts? Where is this capacity because of this tax cut?

Mr. POWELL. Well, I don't comment on particular pieces of legislation. I do think that the United States has fiscal space to respond now to a downturn were it to be necessary.

Chairman YARMUTH. The gentleman's time has expired.

I now recognize the gentlewoman from Texas, Ms. Jackson Lee, for three minutes.

Ms. JACKSON LEE. Mr. Chairman, thank you so very much.

And, welcome, Mr. Chairman, and thank you for your service to the nation. I am going to try and get in two questions and a half, and so I am going to read one question quite quickly, but this impacts my constituents. The cost of childcare, housing, higher education, other essentials have been rising much faster than headline inflation and wages over the last two decades. This speaks to wage stagnation, but more in particular of those working men and women who need those essentials. When making monetary policy, does the Fed consider price inflation in these critical goods and services that disproportionately weigh on working families' pocketbooks?

Mr. POWELL. We really look at the overall inflation and the price level, but as I mentioned earlier,—we always look at the effects of what is happening in the economy and different income spectrums, including those at the lower end of the wage spectrum.

Ms. JACKSON LEE. Does that help move policies that might give relief to some of these working families who need these essentials?

Mr. POWELL. I think all of that informs our making of policy. I think right now, we are particularly encouraged by the progress we are seeing among lower wage workers, and I think that strengthens our commitment to want to see this expansion continue.

Ms. JACKSON LEE. But you do admit that wage stagnation does exist?

Mr. POWELL. Well, overall, wages are moving up at a healthy clip now and have been—they have moved up to about a 3 percent growth rate. We look at a number of different measures. We have wondered why they haven't moved up further, but 3 percent is a healthy wage growth overall.

Ms. JACKSON LEE. In the work of the Federal Reserve, though it looks to the future, historically have you ever assessed the economic impact that unpaid labor provided for the United States during 250 years of slavery?

Mr. POWELL. I don't believe we—you know, so we have many, many economics Ph.D.s who do research. I am not aware of any Fed research on that. I will come back to you.

Ms. JACKSON LEE. Very good. Let me officially ask for that to be done. Would you assume just that that was a great contributor to the wealth of the nation?

Mr. POWELL. Yes. Inevitably, yeah.

Ms. JACKSON LEE. And at this point in time, even as you have indicated wages have gone up, there is a huge disparity in wealth with African Americans, I am looking at 2019 now—in income and the wealth possession, if you will. That is separate and apart from individuals having a job, low unemployment, which has been something that has been in the headlines. How devastating is that, and how can we add research to the Federal Reserve that deals with this seemingly,—continuing systematic divide in terms of income and wealth ultimately in the African American population?

Mr. POWELL. Well, first and foremost, any form of discrimination on the basis of race or other inappropriate categories is simply unacceptable. And in all of the places where we—are not the main agency to enforce that, but we do touch those issues in our supervision of banks and in our implementation of fair lending laws and that kind of thing.

Ms. JACKSON LEE. Well, I would like to,—I know there are many financial entities that we deal with here on the Budget Committee, but I would certainly like to work with your staff on the kind of research that may be done because it is systematic; it is continuous; and we have not seemed to find a way to leap into a moment when that gap does not exist. And I think it impacts all Americans. It certainly impacts those Americans of all backgrounds, but it has been persistent in the African American community. And I want to applaud the Fed for recognizing the importance of data, and so I want to be engaged with you on securing more data on this issue. I thank the chairman for your service to the nation. I yield back.

Mr. POWELL. We will look forward to engaging with you and your staff.

Chairman YARMUTH. The gentlewoman's time has expired.

I now recognize the Ranking Member, Mr. Womack, for five minutes.

Mr. WOMACK. Thank you. Once again, I want to thank the Chairman of the Federal Reserve for being with us today. And you know, if this were a periodic health assessment, any patient would, I think, be pleased with the results of what you have talked about today, if the economy were the patient. A few places here and there where maybe we could do some improvement, others that seem to be doing pretty well. So, if our blood pressure was consumer confidence, we ought to be happy with that. Doesn't need medication. If our heart rate was the job market, it is a very strong job market. I mean, there are some other places, business investment as you have indicated, maybe the elixir there would be, you know, some trade relief that would help. But, overall, the health assessment of the country, as you have articulated here today, is pretty good, don't you think?

Mr. POWELL. I do. The U.S. economy is in a very strong position, historically low unemployment, longest expansion on record, and I think the outlook is still a very positive one.

Mr. WOMACK. So what would you say to the patient today on their exit interview after doing the health assessment? Would it be not to do anything terribly out of the ordinary, change your lifestyle desperately? And when I am saying that, to be fair, I am talking about the assertion that maybe we ought to just raise taxes, you know. Those are the kinds of things that I know my friends on the other side have complained about. There have been many references to Tax Cuts and Jobs Act today. But my assessment, and this is—not my assessment, but I think the CBO assessment was if you did something to the Tax Cuts and Jobs Act, if you pull that back, that you will lose a million jobs. I think you would agree that losing a million jobs for—whatever result would cause a job loss of a million jobs would be harmful to this economy, would it not?

Mr. POWELL. Losing a million jobs would be bad. I hasten to add, though, we are not in the business of evaluating proposals at all.

Mr. WOMACK. So, back to the patient, what is the recommendation, Dr. Powell?

Mr. POWELL. You know, I think the part of the health of the economy that is key here is the consumer, and so what we are looking for is a continued strong labor market, and that seems to be driving this very virtuous circle with consumers where wages are going up, incomes are going up, confidence is high. They are spending, and it is just really good.

We would like to see some improvement on, and you will see, I think, improvement on manufacturing, business investment, and trade over time as demand continues to grow and also as hopefully we reach a period of higher certainty around trade policy.

Mr. WOMACK. So, in my discussion with the physician, I would say that one of my big concerns is more long term, and that is the consequences of the failure of Congress to address matters of deficit and debt, and I think it is an administration issue. I think it is a Congress issue. I think it is a people issue that we have to agree that what we are doing right now is unsustainable. I mean, just today, we find out that in October, it was a $134 billion gap deficit that was run up by this country in the first month of the quarter, and so terribly unsustainable.

So my question for you is this: Because we do not have a balanced budget agreement, an amendment to our Constitution, is a debt-to-GDP target a rational target? Should a Congress accomplish some kind of budget process reform, would that be helpful in the overall health and well-being of our economic future?

Mr. POWELL. I can't really advise you on the budget process, and you know, how you should go about this. In the end, I don't think there is any substitute for having a national consensus around the need to get on a more sustainable path over time, and that takes leadership. That takes risk. And, you know, it is not so much about having a particular provision in the law because the law can be changed, you know. We had all of those things in place in the 1990s, and we actually had a period where we were doing very well on the budget overall. So, I think we have got to get back to that place where there is bipartisan support for doing these things, and that is really the key.

Mr. WOMACK. Mr. Chairman, I appreciate your comments here today. Thank you.

Mr. POWELL. Thank you.

Chairman YARMUTH. I thank the gentleman, and we have got three minutes, so I will use some time now. I yield myself five minutes for questioning, and I want to once again thank you for your appearance and for your testimony.

Several times in the discussion today, you have mentioned that our debt is growing faster than the economy and that that by definition makes it unsustainable. As I mentioned, we are holding a hearing next week on debt, and one of the witnesses, Olivier Blanchard, has new research that suggests that as long as our interest rates are lower than our growth rates, our debt-to-GDP ratio could actually decline even if we did nothing to offset the higher debt levels. Has that affected your thinking in any way about debt, and have you had an opportunity to analyze that research?

Mr. POWELL. Yes. I am very familiar with his work, and you know, he is one of the greats, frankly. That would be true if we were in primary balance, but we are not, and he says this—in his remarks to the American Economic Association is where he started this. So, it is true that lower interest rates, you know, you spend less money paying interest and also that you can probably sustain higher levels of debt. That is true. And it is true that if the economy is growing, that if the growth rate is higher than the interest rate over time, as long as you are in primary balance—and primary balance means that the revenues that are coming in are enough to cover everything but interest. If that is the case, then—and you make those other assumptions—then yes, you can delever over time without actually paying down debt. That is not the case for the United States. We are way out of primary balance. We are a couple percentage points and more below primary balance. So it is relevant for a lot of countries, but right now, we are not in primary balance, and it is not that close.

Chairman YARMUTH. Thank you for that. When we met informally some time ago, the thing that impressed me most about you was your recognition that things are changing very rapidly, and it is very tough to make policy in that environment. And I love the line in your statement: Policy is not on a preset course. And I don't think it could be.

One of the things that I am kind of obsessed with, and the Ranking Member and other Members have heard me say this a number of times, is the increasing pace of change. And a few months ago, the chief technology officer for Microsoft was in my district and made the statement, over the next 10 years, we would experience 250 years' worth of change, which, you know, even if she is a 100 percent off, that is still a lot of change. And I am thinking specifically about artificial intelligence and the impact that many people think the dramatic impact it is going to have on the economy. Has the Fed spent any time in analyzing the potential impact of artificial intelligence on labor, the labor force, and on the economy?

Mr. POWELL. Yes. We have a number of economists across the system who are very active in looking at technology and productivity and the implications for the labor force. And, you know, it is going to depend over time on workers having the skills and aptitudes to benefit from technology. The history for 250 years has been that technology enables higher productivity and that those who have the skills and aptitudes to operate and benefit from that technology, their wages go up, you know, their standard of living goes up. But, you know, you are at a place here where there may be a period, and there have been periods in the past, where there could be several decades where that is not the case, where evolution in technology leads to periods of bad distributional effects. But over time, it has always led to rising, to lifting all boats. But I think this particular period is one that is of concern for that.

Chairman YARMUTH. So, as a Congress, we ought to be thinking about the potential impacts and whether there are any policy moves we ought to make to anticipate, or to at least try to accommodate, artificial intelligence and other technologies.

Mr. POWELL. I think it is hard to imagine that you can stop the march of technology, right? It is going to be about having a workforce that benefits from it. I think people who are on the right side of globalization and technology have benefited enormously. It is the people who, again, don't have the skills and the aptitudes to benefit from it.

Chairman YARMUTH. Well, I am going to yield back the balance of my time, and thank you once again for your appearance here today and your responses.

And if there is no further business before the Committee, this hearing is adjourned.

[Whereupon, at 12:00 p.m., the Committee was adjourned.]

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CONGRESSWOMAN SHEILA JACKSON LEE OF TEXAS

HEARING STATEMENT: "FEDERAL RESERVE BOARD CHAIR JEROME H. POWELL"

COMMITTEE ON THE BUDGET
210 CANNON
NOVEMBER 14, 2019
10:00 A.M.

- Thank you Chairman Yarmuth and Ranking Member Womack for convening this important hearing today with our witness, Jerome H. Powell, the 16th and current Chair of the Federal Reserve, who has served in this position since February 5, 2018.

- Chairman Powell, thank you for being here and for sharing your expertise with this Committee.

- Mr. Chairman, right now things seem to be going pretty well in this economy -- low unemployment, rising wages, inflation – but there are long-term problems that only fiscal policy can address such as a lower labor force participation rate and slowing productivity.

- The costs of child care, housing, higher education, and other essentials have been rising much faster than headline inflation and wages over the last few decades.
- Working men and women need these essentials so inflation remains a concern for them.
- Also Mr. Powell, the racial wealth gap in the United States still exists and is growing larger.
- The median African American family, with just over $3,500, owns just 2 percent of the wealth of the $147,000 the median White family owns.
- Put differently, the median White family has 41 times more wealth than the median African America family and 22 times more wealth than the median Latino family.
- This huge disparity in wealth with African Americans, in both income and wealth, possession needs to be addressed and I urge the Fed to document, study, and recommend actions that can be taken to dissipate this huge disparity.
- We should be working to implement policies that will reduce this systematic divide in income and wealth distribution amongst African Americans and other communities of color that we still see today.
- In addition, Mr. Chairman, I urge the Fed to research, document, and analyze the historical economic impact that unpaid labor, what President Abraham Lincoln referred to in his famous Second Inagural Address as the "bondsman's 250 years of unrequited toil," contributed involuntarily to our nation.

- We should also increase our investments in education so that workers have the skills and aptitude needed to succeed in the global economy.

- Mr. Chairman, the current unemployment rate is a strong labor market, but not a hot labor market, in which we would expect wages to be increasing at a faster pace at this stage in the expansion.

- That wage growth has flattened recently suggests that there is still slack in the labor market, that monetary policy is not accommodative enough, or that other big trends – globalization, market concentration, lower unionization, automation – are holding us back.

- I believe the minimum wage should be increased to $15.00 per hour over several years and am very interested in hearing the Chair's views on this subject as I am on the subject of whether in light of the Trump Tax Scam, we are prepared to meet and overcome the next economic downturn and whether this Administration's tariff war has been weighing on business confidence and is a factor behind the global slowdown in growth and manufacturing.

- Thank you, I look forward to hearing the views of our witness and yield back the remainder of my time.

"The Economic Outlook: The View from the Federal Reserve"

November 14, 2019

Questions for the Record

Representative Tim Burchett (TN-2)

1) Keeping in mind the state of the economy of 1998 and 1999, with current interest rates already low, does the Federal Reserve have less ammunition than normal to fight future recessions? Does Congress have an important role to enact pro-growth policies to prevent and alleviate future recessions?

2) Chairman Powell, do you agree or disagree with the assessment that below-market interests rates create a bubble that is at risk of bursting?

Questions for the Record from Congresswomen Jan Schakowsky

The Hon. Jerome H. Powell
Chair
Board of Governors of the Federal Reserve System

The Honorable Jerome H. Powell

1. During the November 14th hearing I stated that I was discouraged by the 5-year delay in implementing the Federal Reserve's FedNow real-time payment system. This was based off of the Fed's press release that stated FedNow would be available in "2023 or 2024."[1] Mr. Powell responded that it should in fact be implemented in 3 to 4 years. Please clarify when we may expect FedNow to be available.

    a. Please also explain why developing this infrastructure is taking so long, particularly when other central banks have had these systems in place for more than a decade.

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[1] https://www.federalreserve.gov/newsevents/pressreleases/other20190805a.htm

Questions for the Record from Congressman Jimmy Panetta (CA-20)

House Committee on Budget – The Economic Outlook: The View from the Federal Reserve

November 14, 2019

Trade

We are in a moment of great uncertainty regarding trade, as our farmers and businesses don't know what markets they are going to have access to in the future. The trade outlook in China remains extremely unclear, and even as we worked towards getting to "yes" on a renegotiated NAFTA agreement, the President has threatened 5% tariffs on all goods coming in from Mexico.

The Administration has, on several occasions, led the public to believe that we are closer to a deal with China than we really were:

- In April, Treasury Secretary Steven Mnuchin said that trade negotiations were entering the "final laps."

- In October, Mnuchin said the U.S. and China had a "fundamental agreement," but the President days later clarified that nothing had been agreed to an that a deal had yet to even be written down.

- And recently, officials from the Trump Administration stated there was an agreement to roll back tariffs, only to be disputed by the President.

Positive announcements and tweets along the way have boosted stocks, which then fell as it became clear the Administration was overstating their progress.

While the daily rise and fall of stocks is concerning, I'm much more concerned with how the Administration's assertions are impacting economic decisions on a larger scale.

In deciding to cut rates by another 25 basis points in October, you noted trade policy remained uncertain, but also seemed optimistic about a deal with China.

In your press conference, you stated in response to a question about trade, "I would say that the situation in our trade negotiations with China seems to have taken a step closer to resolution."

<u>Questions for Federal Reserve Chair Powell:</u>

- What level of trust does the Fed have in trade announcements from the Administration?

- How closely is the Federal following trade negotiations and global trade trends?

- How important is trade policy in determining Federal Reserve policy?

Questions for the Record
Congresswoman Ilhan Omar
"The Economic Outlook: The View from the Federal Reserve"
House Budget Committee
November 14th, 2019

For Hon. Jerome Powell:

Climate change has caused significant damage to our already deteriorating infrastructure and is expected to continue disrupting business activity and economic security for years to come. As you know, the New York Fed recently reported that climate and weather-related events over the past five years have cost the U.S. more than $500 billion. ***Chairman Powell, how high of a priority are climate change-related issues to the Federal Reserve's policymaking, and why did it take the Fed so long to openly discuss and consider the macroeconomic and financial risks of climate change? Assuming you will take climate resiliency seriously when forming financial and monetary policies, then can you explain why the Fed still is one of the only major central banks to have declined joining the Network for Greening the Financial System? Are there additional steps that the Fed can take to make our financial system sufficiently resilient to climate risks?***

For Hon. Jerome Powell:

Over the last 50 years, income inequality has gotten significantly worse, wages have grown stagnant, and the richest Americans are the only one reaping most of the benefits of increased economic productivity. At the same time, the costs of child care, housing, higher education, and other essentials have been rising much faster than headline inflations and wages over the last few decades. This type of one-sided growth not only seems unjust and immoral but also unsustainable for our economic future. ***When forming monetary policy, does the Fed consider price inflation in these critical goods and services that end up being heavy financial burdens on working families?***

For Hon. Jerome Powell:

When debating the effects of the 2017 Tax Cuts and Jobs Act, it's unclear to me what benefit these type of tax cuts to the wealthy and corporations really have – for any except the already-wealthy. They certainly don't seem to encourage inclusive growth or equitable development, and they aren't fulfilling on the promises of booming business investment constantly echoed by proponents of such broad tax breaks. ***Despite these large tax cut corporations received last year, business investment has actually declined in the last two quarters – could you explain why?***

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

JEROME H. POWELL
CHAIRMAN

January 31, 2020

The Honorable Tim Burchett
House of Representatives
Washington, D.C. 20515

Dear Congressman:

Enclosed are my responses to all the questions that you submitted following the November 14, 2019,[1] hearing before the Committee on the Budget. A copy also has been forwarded to the Committee for inclusion in the hearing record.

Please let me know if I may be of further assistance.

Sincerely,

Jerome H. Powell

Enclosure

[1] Questions for the record related to this hearing were received on November 26, 2019.

Questions for The Honorable Jerome H. Powell, Chair, Board of Governors of the Federal Reserve System from Representative Burchett:

1) Keeping in mind the state of the economy of 1998 and 1999, with current interest rates already low, does the Federal Reserve have less ammunition than normal to fight future recessions?

While there is a wide range of estimates of the neutral federal funds rate, most estimates have declined significantly over the past two decades. The neutral rate is the level of the federal funds rate that is neither expansionary nor contractionary and would keep the economy growing at full employment with price stability. A lower neutral rate implies that the level of interest rates consistent with the Federal Reserve's dual mandate of maximum employment and price stability is lower than in the past and hence closer to the effective lower bound. As a result, there likely will be less room to reduce the federal funds rate to support the economy in the event of a future recession. However, the Federal Reserve has at its disposal other tools to provide additional economic stimulus, such as forward guidance about the course of interest rates in the future and balance sheet policies. These tools were effective in providing additional stimulus after the financial crisis and could be used again in the future if economic circumstances warranted. That said, the relatively low level of the neutral rate poses challenges for the conduct of monetary policy, and the Federal Open Market Committee is mindful of the risks posed by the effective lower bound.

Does Congress have an important role to enact pro-growth policies to prevent and alleviate future recessions?

In the event of recession, both fiscal and monetary policy are capable of, and effective in, supporting the economy. With regard specifically to fiscal policies determined by Congress, the experience in the United States demonstrated that counter-cyclical fiscal policy can be a valuable and important element in the policy response to economic downturns. This is particularly the case in our low-interest rate environment where the effective lower bound may constrain monetary policy.

2) Chairman Powell, do you agree or disagree with the assessment that below-market interests rates create a bubble that is at risk of bursting?

The Federal Reserve monitors financial conditions and institutions for signs of excessive risk-taking. Experience suggests many factors besides low interest rates influence risk-taking, including attitudes toward risk, uncertainty, and the strength of the economy. In our periodic Financial Stability Report (FSR), we include a comprehensive review of a range of vulnerabilities, including those that could be spurred by low rates.

As noted in the most recent FSR[1], we do not currently see large vulnerabilities. Indeed, the long economic expansion is notable for the lack of significant financial imbalances. Broad measures of risk appetite are not out of line with their historical ranges, total debt owed by businesses and

[1] https://www.federalreserve.gov/publications/2019-november-financial-stability-report-purpose.htm.

households has advanced at a pace broadly in line with GDP for several years, and key financial institutions, particularly large banks, appear quite resilient.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

JEROME H. POWELL
CHAIR

January 16, 2020

The Honorable Jan Schakowsky
House of Representatives
Washington, D.C. 20515

Dear Congresswoman:

Enclosed are my responses to all of the questions that you submitted following the November 14, 2019,[1] hearing before the Committee on Budget. A copy also has been forwarded to the Committee for inclusion in the hearing record.

Please let me know if I may be of further assistance.

Sincerely,

Jerome H. Powell

Enclosure

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Questions for The Honorable Jerome H. Powell, Chair, Board of Governors of the Federal Reserve System from Representative Schakowsky:

1. During the November 14th hearing I stated that I was discouraged by the 5-year delay in implementing the Federal Reserve's FedNow real-time payment system. This was based off of the Fed's press release that stated FedNow would be available in "2023 or 2024."[1] Mr. Powell responded that it should in fact be implemented in 3 to 4 years. Please clarify when we may expect FedNow to be available.

Please also explain why developing this infrastructure is taking so long, particularly when other central banks have had these systems in place for more than a decade.

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The development of the FedNow[SM] Service will be a key focus area for the Federal Reserve Board (Board) for the foreseeable future. The Board anticipates that the FedNow Service will be available sometime in 2023 or 2024, although an official launch date has not yet been established. When a specific launch date and implementation timeline have been finalized, that information will be provided publicly. The Board recognizes that time to market is an important consideration for many industry participants and is committed to establishing the FedNow Service as soon as practicably possible. Ongoing work to finalize business requirements, determine engagement with external vendors, and assess the industry's views on features and design will help inform the implementation timeline for the FedNow Service.

The Board is working diligently to make sure that the service is safe and effective in meeting the needs of depository institutions of all sizes and their customers. Achieving these objectives is a complex undertaking that will inevitably take some time, particularly in light of the diversity of the nation's banking industry. The United States has more than 10,000 depository institutions that vary greatly in terms of size, level of technical capabilities, operational practices, and customers and communities served. Providing connectivity to banks of all sizes will require a flexible approach, and the Board is leveraging its significant experience as a service provider to address implementation challenges.

The Board is developing the FedNow Service as a new system that can serve as core infrastructure for the next generation of payment services in the United States. Globally, jurisdictions have taken varied approaches to develop systems for faster payments, reflecting, among other things, differences in their domestic banking and payment industries and differing roles of the central bank. Although faster payment systems have been in place for some time in a small number of jurisdictions, these systems often do not have the same design as the FedNow Service and serve substantially less complex banking industries. For example, in the United Kingdom, faster payments settle between banks on a deferred basis (that is, at a time after end-user customers have received funds) at the Bank of England, which contrasts with the real-time interbank settlement at the Federal Reserve Banks that will occur in the FedNow Service. In other jurisdictions, such as Australia and the European Union, implementation of faster payment systems based on real-time settlement has occurred in recent years. These more recent examples have involved extended periods of industry consultation and system development, similar to the experience of the United States.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

JEROME H. POWELL
CHAIR

January 16, 2020

The Honorable Jimmy Panetta
House of Representatives
Washington, D.C. 20515

Dear Congressman:

Enclosed are my responses to all of the questions that you submitted following the November 14, 2019,[1] hearing before the Committee on Budget. A copy also has been forwarded to the Committee for inclusion in the hearing record.

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Sincerely,

Enclosure

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<u>Questions for The Honorable Jerome H. Powell, Chair, Board of Governors of the Federal Reserve System from Representative Panetta</u>:

We are in a moment of great uncertainty regarding trade, as our farmers and businesses don't know what markets they are going to have access to in the future. The trade outlook in China remains extremely unclear, and even as we worked towards getting to "yes" on a renegotiated NAFTA agreement, the President has threatened 5% tariffs on all goods coming in from Mexico.

The Administration has, on several occasions, led the public to believe that we are closer to a deal with China than we really were:

- **In April, Treasury Secretary Steven Mnuchin said that trade negotiations were entering the "final laps."**
- **In October, Mnuchin said the U.S. and China had a "fundamental agreement," but the President days later clarified that nothing had been agreed to an that a deal had yet to even be written down.**
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In your press conference, you stated in response to a question about trade, "I would say that the situation in our trade negotiations with China seems to have taken a step closer to resolution."

- **What level of trust does the Fed have in trade announcements from the Administration?**
- **How closely is the Federal following trade negotiations and global trade trends?**
- **How important is trade policy in determining Federal Reserve policy?**

I appreciate your interest in how the Federal Reserve incorporates trade developments into our economic outlook and policy decisions. However, trade policy is not the Federal Reserve's responsibility. Our focus is on achieving our mandated goals of maximum employment and price stability. We look at trade developments as one of many factors that affect the economic outlook. In doing so, we try to take a step back from the daily ups and downs of trade negotiations to focus on the implications for the economy in the medium run.

For quite some time we have heard from our business contacts around the country that uncertainty about trade policy has negatively affected their willingness to invest in expanding their businesses. It appears that trade developments have contributed to the global slowdown and have weighed on manufacturing, capital spending, and exports in the United States. Removing some of the trade policy uncertainty could improve business sentiment and support the economy over time.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

JEROME H. POWELL
CHAIR

February 7, 2020

The Honorable Ilhan Omar
House of Representatives
Washington, D.C. 20515

Dear Congresswoman:

Enclosed are my responses to all of the questions that you submitted following the November 14, 2019,[1] hearing before the Committee on Budget. A copy also has been forwarded to the Committee for inclusion in the hearing record.

Please let me know if I may be of further assistance.

Sincerely,

Jerome H. Powell

Enclosure

[1] Questions for the record related to this hearing were received on November 26, 2019.

Questions for The Honorable Jerome H. Powell, Chair, Board of Governors of the Federal Reserve System from Representative Omar:

1. Climate change has caused significant damage to our already deteriorating infrastructure and is expected to continue disrupting business activity and economic security for years to come. As you know, the New York Fed recently reported that climate and weather-related events over the past five years have cost the U.S. more than $500 billion.

Chairman Powell, how high of a priority are climate change-related issues to the Federal Reserve's policymaking, and why did it take the Fed so long to openly discuss and consider the macroeconomic and financial risks of climate change? Assuming you will take climate resiliency seriously when forming financial and monetary policies, then can you explain why the Fed still is one of the only major central banks to have declined joining the Network for Greening the Financial System? Are there additional steps that the Fed can take to make our financial system sufficiently resilient to climate risks?

Although Congress has principally entrusted other agencies with the task of addressing climate change, Federal Reserve staff are conducting work to understand the ways in which climate-related developments may pose risks to the economy and financial system of the United States and thus be relevant to the work of the Federal Reserve. Staff have made substantial contributions to an emerging research literature on the relationship between climate and financial risks, publishing a range of empirical studies on the effects of climate events on the real economy. We are participating actively in relevant work at international standard-setting bodies, such as the Financial Stability Board, and we have been closely engaged with other central banks and supervisors on their efforts to better assess climate-related financial risks. This engagement includes the Network for Greening the Financial System (NGFS). Federal Reserve staff have attended recent NGFS discussions as guests and we will continue to do so. We are also exploring how we might participate further in a way that is consistent with the full range of our responsibilities.

Analytic work on climate-related financial risks is in its early stages; conducting this work is a challenge facing the entire international regulatory community that will require long-term effort and sustained attention. The Federal Reserve's long-standing policy activities can play an important role in this effort. U.S. supervisors work closely with financial institutions to ensure they understand and effectively manage their risks, including those associated with climate-related risks, and to ensure institutions can continue critical operations in the wake of a disaster. Our framework for monitoring financial stability also captures a series of potential near-term risks such as the possibility of large losses to property and casualty insurers.

2. Over the last 50 years, income inequality has gotten significantly worse, wages have grown stagnant, and the richest Americans are the only one reaping most of the benefits of increased economic productivity. At the same time, the costs of child care, housing, higher education, and other essentials have been rising much faster than headline inflations and

wages over the last few decades. This type of one-sided growth not only seems unjust and immoral but also unsustainable for our economic future.

When forming monetary policy, does the Fed consider price inflation in these critical goods and services that end up being heavy financial burdens on working families?

Inflation is an average of price changes across the whole range of goods and services that people purchase. But as you note, price changes for different items can differ considerably, and persistently, over time. Prices of the items you cite have risen more rapidly than average over the past decade, and of course those increases have been balanced by below-average price increases for other items, including food at grocery stores, clothing, cars, and televisions and other electronics. In 2015, the Bureau of Labor Statistics (BLS) constructed a price index for a subset of items that could be considered "basic necessities:" food, shelter, clothing, energy (for example, gasoline and heating fuel), and medical care. Their measure did not include school tuition or child care, however—and to be sure, this index provides only a rough measure of necessities. That said, this basic necessities price index rose only a little more than overall inflation from 1982-2014. Updating the BLS's estimates since 2014 finds again only modestly higher inflation for this definition of basic necessities.

More generally, inflation is not the same for everyone and it would be useful to see more research to better understand how inflation experiences have varied across the population. Any such differing inflation experiences would be highly relevant for understanding how standards of living have changed for different income groups. Knowing the implications for monetary policy seems much less clear-cut, however. Monetary policy affects inflation broadly, and we interpret the price stability portion of our congressional mandate to refer to overall inflation.

Economic policy should strive to achieve solid economic growth and rising standards of living not just on average but throughout the population. The policies to support these objectives are mostly outside the scope of monetary policy, but the Federal Reserve can contribute by pursuing our mandate of maximum employment and price stability.

3. When debating the effects of the 2017 Tax Cuts and Jobs Act, it's unclear to me what benefit these type of tax cuts to the wealthy and corporations really have - for any except the already wealthy. They certainly don't seem to encourage inclusive growth or equitable development, and they aren't fulfilling on the promises of booming business investment constantly echoed by proponents of such broad tax breaks. Despite these large tax cut corporations received last year, business investment has actually declined in the last two quarters - could you explain why?

Following strong gains in 2018, investment spending by businesses—that is, nonresidential private fixed investment—decelerated sharply in 2019 and is estimated to have declined outright in the second, third, and fourth quarters of the year, and to have been little changed for the year as a whole. The softness in business investment has been widespread, with all three major sub-sectors—equipment, structures, and intellectual property products—making sizable contributions to the deceleration. On net, it appears that business investment has been roughly flat through the first three quarters of the year.[1]

Sluggish growth abroad, trade developments, and heightened uncertainty all appear to be weighing on investment. In addition, the suspension of deliveries and production at a major commercial aircraft manufacturer has reduced transportation equipment investment, and sliding energy prices have contributed to ongoing declines in drilling and mining investment that began in mid-2018. Investment in non-drilling structures has also declined over the course of 2019, with commercial construction—particularly shopping malls—accounting for much of the decrease. And while investment in intellectual property products, which includes software, research and development, and entertainment, literary and artistic originals, has proven to be more robust, growth in 2019 is still markedly lower than in 2018.

Forward-looking indicators of business spending, such as orders of nondefense capital goods, surveys of business conditions and sentiment, capital spending plans, and profit expectations from industry analysts, all appear to have stabilized in recent months after having deteriorated markedly earlier in 2019. These indicators are consistent with continued soft investment growth, but likely not material declines.

[1] For more details on the effects of the 2017 Tax Cuts and Jobs Act, see the Congressional Research Service (2019), "The Economic Effects of the 2017 Tax Revision: Preliminary Observations."