

Congress of the United States

Washington, DC 20515

May 1, 2023

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

Dear Chair Powell:

We write regarding our concern about the Federal Reserve's (Fed's) monetary policy strategy and its potential to throw millions of Americans out of work. While the labor market has remained resilient to the Fed's aggressive interest rate hikes and inflation is down from its peak last year,¹ recent turmoil in the banking system following the failures of Silicon Valley Bank and Signature Bank² and the lagging impacts of the Fed's earlier rate hikes³ leave our economy even more vulnerable to an overreaction by the Fed. In advance of the Federal Open Market Committee's (FOMC's) May 2-3 meeting,⁴ we strongly urge you to respect the Fed's dual mandate, pause your rate hikes, and avoid engineering a recession that destroys jobs and crushes small businesses.

On March 22, 2023, the FOMC announced it would raise its target range for the federal funds rate for the ninth-consecutive time in a year.⁵ While the Fed has slowed the pace of its rate hikes in recent meetings, the March move extended the most extreme rate-hiking cycle in 40 years and pushed the Fed funds rate to a 15-year high.⁶ The FOMC's updated Summary of Economic Projections indicated that the Fed is expecting to continue raising the funds rate this year up to

¹ CNN, "US inflation falls to lowest level since May 2021," Alicia Wallace, April 12, 2023, <https://www.cnn.com/2023/04/12/economy/cpi-inflation-march/index.html>.

² New York Times, "Fed Officials Fretted Bank Turmoil Could Have Serious Economic Consequences," Jeanna Smialek, April 12, 2023, <https://www.nytimes.com/2023/04/12/business/economy/fed-minutes-rate-increases.html>.

³ New York Times, "Unemployment Is Low. Inflation Is Falling. But What Comes Next?," Ben Casselman, April 14, 2023, <https://www.nytimes.com/2023/04/14/business/economy/economy-jobs-inflation-recession.html>.

⁴ Board of Governors of the Federal Reserve System, Federal Open Market Committee Meeting calendars and information, <https://www.federalreserve.gov/monetarypolicy/fomccalendars.htm>.

⁵ Wall Street Journal, "Fed Raises Rates but Nods to Greater Uncertainty After Banking Stress," Nick Timiraos, March 22, 2023, <https://www.wsj.com/articles/fed-raises-rates-but-nods-to-greater-uncertainty-after-banking-stress-6ae9316f>.

⁶ Wall Street Journal, "Fed Slows Its Tightening With Quarter-Point Interest Rate Rise," Nick Timiraos, February 1, 2023, <https://www.wsj.com/articles/fed-approves-quarter-point-rate-hike-signals-more-increases-likely-11675278190>; Wall Street Journal, "Fed Raises Rates but Nods to Greater Uncertainty After Banking Stress," Nick Timiraos, March 22, 2023, <https://www.wsj.com/articles/fed-raises-rates-but-nods-to-greater-uncertainty-after-banking-stress-6ae9316f>.

5.1%⁷ – unchanged from the Fed’s December 2022 projection but higher than the September 2022 projection of 4.6%.⁸

The March interest rate hike came even as the turmoil in the banking system led Fed staff to project a “mild recession starting later this year.”⁹ You acknowledged in your March 22, 2023 press conference that the fallout from the Silicon Valley Bank and Signature Bank failures is “likely to result in some tightening credit conditions for households and businesses and thereby weigh on demand, on the labor market, and on inflation. Such a tightening in financial conditions would work in the same direction as rate tightening. In principle, as a matter of fact, you can think of it as being the equivalent of a rate hike or perhaps more than that.”¹⁰ Indeed, there are already “signs that small and midsize lenders have begun to tighten their credit standards in response to the crisis, which, in turn, could push the businesses that are their clients to cut back on hiring and investment.”¹¹ State governors have noted that the Fed’s rate hikes “are already proving to be a barrier as [states] look to invest in major infrastructure projects” and have been “counterproductive” to ensuring families’ access to affordable housing.¹²

Recent economic data also suggest that additional rate hikes are unnecessary. Since peaking in June 2022, the headline year-over-year Consumer Price Index has fallen for nine consecutive months to its lowest level in nearly two years.¹³ The Personal Consumption Expenditures price index has similarly slowed from its peak level in early 2022.¹⁴ While inflation “is showing signs of dissipating,”¹⁵ the labor market has remained resilient, with the economy adding jobs at a solid though slowing pace.¹⁶ The unemployment rate in March fell to 3.5%, with the unemployment rate for Black Americans falling to its lowest level on record.¹⁷ Overall,

⁷ Board of Governors of the Federal Reserve System, “Summary of Economic Projections,” March 22, 2023, p. 2, <https://www.federalreserve.gov/monetarypolicy/files/fomcproptabl20230322.pdf>.

⁸ Board of Governors of the Federal Reserve System, “Summary of Economic Projections,” December 14, 2022, p. 2, <https://www.federalreserve.gov/monetarypolicy/files/fomcproptabl20221214.pdf>; Board of Governors of the Federal Reserve System, “Summary of Economic Projections,” September 21, 2022, p. 2, <https://www.federalreserve.gov/monetarypolicy/files/fomcproptabl20220921.pdf>.

⁹ New York Times, “Fed Officials Fretted Bank Turmoil Could Have Serious Economic Consequences,” Jeanna Smialek, April 12, 2023, <https://www.nytimes.com/2023/04/12/business/economy/fed-minutes-rate-increases.html>.

¹⁰ Board of Governors of the Federal Reserve System, “Chair Powell’s Press Conference,” press conference, March 22, 2023, <https://www.federalreserve.gov/mediacenter/files/FOMCpresconf20230322.pdf>.

¹¹ New York Times, “Unemployment Is Low. Inflation Is Falling. But What Comes Next?,” Ben Casselman, April 14, 2023, <https://www.nytimes.com/2023/04/14/business/economy/economy-jobs-inflation-recession.html>.

¹² Letter from Governor Daniel J. McKee to Federal Reserve Chair Jerome Powell, March 31, 2023, https://www.wpri.com/wp-content/uploads/sites/23/2023/03/Fed-Letter-Jerome-Powell-McKee-3_27_23-v8.pdf.

¹³ CNN, “US inflation falls to lowest level since May 2021,” Alicia Wallace, April 12, 2023, <https://www.cnn.com/2023/04/12/economy/cpi-inflation-march/index.html>.

¹⁴ Federal Reserve Bank of St. Louis, “Personal Consumption Expenditures: Chain-type Price Index,” Federal Reserve Economic Data, <https://fred.stlouisfed.org/series/PCEPI>; Federal Reserve Bank of St. Louis, “Personal Consumption Expenditures Excluding Food and Energy (Chain-Type Price Index),” Federal Reserve Economic Data, <https://fred.stlouisfed.org/series/PCEPILFE>.

¹⁵ New York Times, “Unemployment Is Low. Inflation Is Falling. But What Comes Next?,” Ben Casselman, April 14, 2023, <https://www.nytimes.com/2023/04/14/business/economy/economy-jobs-inflation-recession.html>.

¹⁶ CNBC, “Job growth totals 236,000 in March, near expectations as hiring pace slows,” Jeff Cox, April 7, 2023, <https://www.cnbc.com/2023/04/07/jobs-report-march-2023.html>.

¹⁷ *Id.*

compared to the labor market prior to the pandemic, “More people are working. They are paid more. The gaps between them — by race, gender, education or income — are smaller.”¹⁸

It is even more difficult to justify such aggressive rate hikes at the moment given that inflation over the past six months has already declined significantly, averaging just 3.6 percent at an annualized rate, compared to 6.4 percent for the previous six months.¹⁹ Wage growth has also slowed to 3.2 percent over the last three months, which is widely recognized to be consistent with the Fed’s 2-percent inflation target, as we witnessed pre-pandemic.²⁰

Continued interest rate hikes needlessly threatens this progress. As one report noted, the “gradual rebound in the number of people working or looking for work — and the fact that pay gains have been easing even as the jobless rate has plummeted — could make some Fed officials question whether they need to slow down the job market as drastically as they had expected.”²¹ While the Fed should remain flexible to incoming data as it assesses the economy’s progress toward achieving lower inflation, the evidence to date suggests that progress can continue to be made without slamming the brakes on the economy and costing millions of Americans their jobs.

Your recent comments, however, suggest that you remain committed to the idea that millions of workers must lose their jobs in order to bring inflation to heel. In your view, the economy is “not going to have a sustainable return to 2 percent inflation...without a better balance in the labor market. And I don’t know what that will require in terms of increased unemployment” though “most forecasters would say that unemployment will probably rise a bit from here.”²²

History casts doubt on the Fed’s ability to engineer an unemployment rate that just “rise[s] a bit.”²³ The FOMC’s March forecast shows that the Fed seeks to drive the unemployment rate up by a percentage point this year, from 3.5% in March²⁴ to 4.5%.²⁵ But analysts note that since World War II, the unemployment rate has *never* increased by one percentage point within a year outside of a recession: the unemployment rate has increased by one percentage point 12 times since 1945, and in all 12 times that increase has been in the context of a recession.²⁶ And every time the unemployment rate increased by a full percentage point, it continued to increase far

¹⁸ New York Times, “Unemployment Is Low. Inflation Is Falling. But What Comes Next?,” Ben Casselman, April 14, 2023, <https://www.nytimes.com/2023/04/14/business/economy/economy-jobs-inflation-recession.html>.

¹⁹ Bureau of Labor Statistics, “CPI for All Urban Consumers (CPI-U),” Sept 2022-March 2023 average, <https://beta.bls.gov/dataViewer/view/timeseries/CUSR0000SA0>.

²⁰ Center for Economic and Policy Research, “Strong Job Growth Again in March, but Hours Drop, and Wage Growth Slows Further,” Dean Baker, April 7, 2023. <https://cepr.net/strong-job-growth-again-in-march-but-hours-drop-and-wage-growth-slows-further/>.

²¹ New York Times, “January Jobs Report Contained Hopeful and Worrying News for the Fed,” Jeanna Smialek, February 3, 2023, <https://www.nytimes.com/2023/02/03/business/economy/federal-reserve-jobs-jerome-powell.html>.

²² Board of Governors of the Federal Reserve System, “Chair Powell’s Press Conference,” press conference, February 1, 2023, <https://www.federalreserve.gov/mediacenter/files/FOMCpresconf20230201.pdf>.

²³ *Id.*

²⁴ CNBC, “Job growth totals 236,000 in March, near expectations as hiring pace lows,” Jeff Cox, April 7, 2023, <https://www.cnbc.com/2023/04/07/jobs-report-march-2023.html>.

²⁵ Board of Governors of the Federal Reserve System, “Summary of Economic Projections,” March 22, 2023, p. 2, <https://www.federalreserve.gov/monetarypolicy/files/fomcproptabl20230322.pdf>.

²⁶ Employ America, “The Fed Is Trying To Engineer A Recession,” Alex Williams, January 9, 2023, <https://www.employamerica.org/blog/the-fed-is-trying/>.

beyond that level.²⁷ The Fed’s projections that unemployment will essentially stay level in 2024 after pushing the economy into a recession in 2023, warns an economist concerned with maintaining full employment, “amounts to a convenient delusion.”²⁸

The Fed’s focus on driving unemployment higher is particularly concerning given your acknowledgement that inflation has been driven by factors other than labor market dynamics. You have noted in recent speeches that “a big part of this inflation is actually related to the pandemic itself, the shut down and then the reopening”²⁹ and that “it is very difficult to forecast inflation now” because “the situation is so different from the normal one. And...a lot of it is just that the difficulty is just the supply side constraints that we’ve had.”³⁰

This echoes previous comments you have made in which you recognized that the Fed’s tools “don’t really work on supply shocks”³¹ and that “many factors that we don’t control are going to play a very significant role in deciding whether” the economy can maintain a strong labor market while bringing inflation down to the Fed’s target rate.³² Indeed, recent Fed research affirms that pandemic-induced reallocation shocks³³ and corporate price markups³⁴ have overwhelmingly driven the rise in inflation over the last year. European central bankers have warned of the “risks of a so-called profit-price spiral” in which large corporations “that push up their prices above and beyond what is necessary to absorb higher costs could be fueling inflation.”³⁵ Nevertheless, you have maintained that the “great labor market” is “too great in a way, because it’s going to be adding to inflation.”³⁶

We strongly agree with FOMC participants who emphasized in your March meeting “the need to retain flexibility and optionality in determining the appropriate stance of monetary policy given the highly uncertain economic outlook.”³⁷ But we remain deeply concerned that the Fed risks

²⁷ *Id.*

²⁸ *Id.*

²⁹ Federal Reserve Board of Governors, Fed Chair Powell interview at The Economic Club of Washington, February 7, 2023, https://www.youtube.com/watch?v=kkC4LuuxOg4&ab_channel=CNBCTelevision.

³⁰ Brookings Institution, “Federal Reserve Chair Jerome Powell: The Economic Outlook, Inflation, and the Labor Market,” November 30, 2022, https://www.brookings.edu/wp-content/uploads/2022/11/es_20221130_powell_transcript.pdf.

³¹ Board of Governors of the Federal Reserve System, “Chair Powell’s Press Conference,” press conference, May 4, 2022, <https://www.federalreserve.gov/mediacenter/files/FOMCpresconf20220504.pdf>.

³² Board of Governors of the Federal Reserve System, “Chair Powell’s Press Conference,” press conference, June 15, 2022, <https://www.federalreserve.gov/mediacenter/files/FOMCpresconf20220615.pdf>.

³³ Board of Governors of the Federal Reserve System, “The Inflationary Effects of Sectoral Reallocation,” Francesco Ferrante, Sebastian Graves, and Matteo Iacoviello, February 2023, p. 1, <https://www.federalreserve.gov/econres/ifdp/files/ifdp1369.pdf>.

³⁴ Federal Reserve Bank of Kansas City, “How Much Have Record Corporate Profits Contributed to Recent Inflation?,” Andrew Glover, José Mustre-del-Río, and Alice von Ende-Becker, January 2023, <https://www.kansascityfed.org/research/economic-review/how-much-have-record-corporate-profits-contributed-to-recent-inflation/>.

³⁵ New York Times, “Are Big Profits Keeping Prices High? Some Central Bankers Are Concerned,” Eshe Nelson, March 31, 2023, <https://www.nytimes.com/2023/03/31/business/company-profit-inflation-europe.html>.

³⁶ Brookings Institution, “Federal Reserve Chair Jerome Powell: The Economic Outlook, Inflation, and the Labor Market,” November 30, 2022, https://www.brookings.edu/wp-content/uploads/2022/11/es_20221130_powell_transcript.pdf.

³⁷ New York Times, “Fed Officials Fretted Bank Turmoil Could Have Serious Economic Consequences,” Jeanna Smialek, April 12, 2023, <https://www.nytimes.com/2023/04/12/business/economy/fed-minutes-rate-increases.html>.

throwing millions of Americans out of work in its drive to raise interest rates even higher – even as Fed staff have already projected a recession this year amid financial market headwinds and even as you have acknowledged that inflation can slow without destroying the labor market, that the most significant drivers of inflation are not demand-based, and that the economy has not yet experienced the full impact of its earlier rate increases.

While we do not question the Fed’s policy independence, we believe that continuing to raise interest rates would be an abandonment of the Fed’s dual mandate to achieve both maximum employment and price stability³⁸ and show little regard for the small businesses and working families that will get caught in the wreckage. Small businesses “have historically been the first hit during economic downturns and generally suffer more-significant losses. Data show the hits have already started.”³⁹ Moreover, “If there is a recession, the pain will probably be felt most acutely by those on the margins.”⁴⁰ As economist William Spriggs notes, “There is no period in which the Fed pursued a deflationary policy in which low-income people won. The median income of Black families falls, and it takes years to come back. Child poverty spikes.”⁴¹

We urge you to carefully consider these consequences and ensure that the Fed does not lose sight of its mandate to achieve maximum employment. The Fed should pause its rate hikes at the upcoming FOMC’s policy meeting.

Additionally, to obtain more information about the implications of the Fed’s latest economic projections, we request that you respond to the following by May 15, 2023:

1. The Fed’s March 2023 Summary of Economic Projections forecasts that the unemployment rate will rise to 4.5% by the end of 2023⁴², up from 3.5% in March 2023.⁴³ According to the Fed’s estimates, how many lost jobs does that forecast imply?
2. The Fed’s March 2023 Summary of Economic Projections forecasts that unemployment will rise to 4.6% by the end of 2024.⁴⁴ According to the Fed’s estimates, how many lost jobs does that forecast imply?

³⁸ Board of Governors of the Federal Reserve System, Monetary Policy Principles and Practice, <https://www.federalreserve.gov/monetarypolicy/monetary-policy-what-are-its-goals-how-does-it-work.htm>.

³⁹ Wall Street Journal, “Small Businesses Keep Hiring as Fed Raises Rates to Cool Economy,” Dion Rabouin, January 25, 2023, <https://www.wsj.com/articles/surge-in-hiring-by-small-business-complicates-feds-effort-to-cool-economy-11674627479>.

⁴⁰ New York Times Magazine, “The Fed May Finally Be Winning the War on Inflation. But at What Cost?,” Michael Steinberger, January 10, 2023, <https://www.nytimes.com/2023/01/10/magazine/inflation-federal-reserve.html>.

⁴¹ *Id.*

⁴² Board of Governors of the Federal Reserve System, “Summary of Economic Projections,” March 22, 2023, p. 2, <https://www.federalreserve.gov/monetarypolicy/files/fomcprohtable20230322.pdf>.

⁴³ CNBC, “Job growth totals 236,000 in March, near expectations as hiring pace slows,” Jeff Cox, April 7, 2023, <https://www.cnbc.com/2023/04/07/jobs-report-march-2023.html>.

⁴⁴ Board of Governors of the Federal Reserve System, “Summary of Economic Projections,” March 22, 2023, p. 2, <https://www.federalreserve.gov/monetarypolicy/files/fomcprohtable20230322.pdf>.

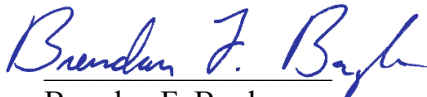
3. The Fed's March 2023 Summary of Economic Projections suggests that at least one member of the FOMC projects that unemployment will rise to 5.2% by the end of 2024.⁴⁵ According to the Fed's estimates, how many lost jobs in millions, would that forecast imply?
4. Under each unemployment forecast described above, please describe the expected distributional impact of lost jobs by:
 - a. Wage quartile;
 - b. Race;
 - c. Sex;
 - d. Educational attainment; and
 - e. Sector.
5. Under each unemployment forecast described above, please describe the expected trends in wage growth for production and nonsupervisory employees by:
 - a. Wage quartile;
 - b. Race;
 - c. Sex;
 - d. Educational attainment; and
 - e. Sector.
6. The past three months for which we have data demonstrate a slowing of wage growth, now measured at an annualized 3.2% rate. Does the Fed believe this wage growth is consistent with accelerating inflation?

Thank you for your attention to this matter.

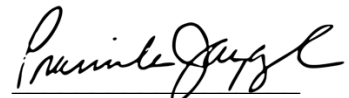
Sincerely,



Elizabeth Warren
United States Senator



Brendan F. Boyle
Member of Congress



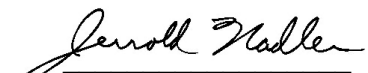
Pramila Jayapal
Member of Congress



Sheldon Whitehouse
United States Senator



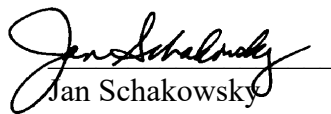
Bernie Sanders
United States Senator



Jerrold Nadler
Member of Congress



Jamaal Bowman, Ed.D.
Member of Congress

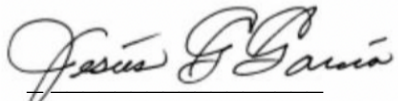


Jan Schakowsky
Member of Congress



Katie Porter
Member of Congress

⁴⁵ *Id.*

A handwritten signature in black ink, reading "Jesus G. Garcia". The signature is written in a cursive style with a horizontal line underneath the name.

Jesus G. "Chuy" García
Member of Congress