



FedFin Client Report

Thursday, June 23, 2022

Powell Takes Another Pounding

Client Report: FEDERALRESERVE71

Executive Summary

At today's HFSC hearing, Chairman Powell encountered the same political headwinds evident at yesterday's Senate Banking session ([see Client Report FEDERALRESERVE70](#)), reinforcing and even heightening his commitment to fighting inflation in concert with hopes that a soft landing may still be possible. Chairwoman Waters (D-CA) followed Chairman Brown's (D-OH) cautious tone, urging the central bank to be mindful of maximum employment as it pursues price stability and blaming much recent inflation on undue corporate power. Ranking Member McHenry (R-NC) was merciless in his inflation attack, largely directing it to Democrats even as he and other Republicans pressed for faster Fed intervention and reconsideration of the Taylor Rule. House Republicans did not, however, bring up another key Senate GOP concern: the master-account access issue specific to the Kansas City Fed and resulting criticism of Fed independence and Reserve Bank governance. Chairman Powell today was far more emphatic about the express need for statutory change before the central bank can launch a digital currency, providing no timeline for when the Fed will outline next steps (if any). Mr. Powell did, though, promise to do the Fed's best to implement the new LIBOR law ([see FSM Report LIBOR6](#)) by its September deadline.

Analysis

Opening Statements

Reps. Waters and McHenry devoted much of their opening statements to criticizing each other, reprising accusations about committee priorities that dominated yesterday's mark-up. The chairwoman also used her opening statement to argue that bank mergers adversely affect lower-income communities and cited recent improvements in Federal Reserve System diversity.

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Testimony

Chairman Powell's testimony was the same as that delivered before the Senate Banking Committee.

Q&A

- **CBDC:** Rep. Torres (D-NY) asked if Mr. Powell prefers an intermediated or disintermediated approach to CBDC; Mr. Powell strongly supports an intermediated approach, which is the one already selected in the Fed's pending discussion draft ([see FSM Report CBDC10](#)). Mr. Torres also asked if Congressional authorization is a policy preference or precondition for CBDC; Mr. Powell said that it is a precondition. Rep. Himes (D-CT) referenced his [white paper](#) and asked Mr. Powell for next CBDC steps. Mr. Powell said the Fed is doing a great deal of work on CBDC, stressing its importance as a potential technological innovation and calling on Congress to think about how to authorize it.
- **Expanded Mandate:** Rep. Barr (R-KY) brought up H.R. 2543, Waters legislation that he said would give the Fed additional responsibility around racial and socioeconomic disparity, asking Mr. Powell if giving the Fed this responsibility would politicize it and compromise its independence. Mr. Powell said that the public has been well served by the Fed's dual mandate and that he would be concerned about any statutory requirement expanding it.
- **Credit Power:** Rep. Pressley (D-MA) called for a more sophisticated Fed toolkit, specifically discussing direct credit regulation as a potential new tool. Mr. Powell said this is a matter up to Congress, although Fed tools deal well with aggregate demand.
- **Payment System Access:** Rep. Auchincloss (D-MA) asked about Fed plans for payment-system access; Mr. Powell said FedNow is set to launch next year and that the Fed is looking at how to adjudicate access ([see FSM Report PAYMENT20](#)).
- **LIBOR:** Rep. Sherman (D-CA) asked if the Fed can be counted on to complete a rulemaking stipulated in the LIBOR law by its September deadline. Mr. Powell said the Fed is working hard to meet that deadline.
- **CFPB:** Rep. Luetkemeyer (R-MO) brought up a quote from a recent CFPB recent [blog post](#) regarding interest rates in which the Bureau said it is an arm of the Fed, and asked Chairman Powell if he agreed with this characterization. Mr. Powell said the CFPB is an independent agency and that the Fed does not have control over its actions.
- **Climate Risk:** Rep. Barr brought up climate stress testing standards that he said would redirect lending from the fossil fuel sector, asking Mr. Powell to acknowledge the role the Fed plays in constraining energy supply. Mr. Powell said he is not in the business of assigning credit, which is done by the private sector.

- **Stablecoins:** Rep. Gottheimer (D-NJ) asked Chairman Powell whether he believed that nonbank entities can be reliable issuers of stablecoins if they are fully backed by cash and cash equivalents. Chairman Powell gave no opinion on this key question, stressing the need for appropriate stablecoin regulation and Congressional action.