

Ranking Member Pat Toomey (R-Pa.)
Opening Statement
Full Committee Hearing
March 3, 2022

Thank you, Mr. Chairman.

Chairman Powell, congratulations on your re-nomination. As I've said, I intend to vote in favor of extending your chairmanship. Let me briefly explain why.

There's broad bipartisan backing for Chairman Powell's re-nomination because he has a record of acting thoughtfully and constructively, especially in difficult circumstances.

First, he implemented a number of modest, sensible reforms that reduced regulatory burdens, including on small banks, and helped spur economic growth. Second, when the pandemic hit nearly two years ago—and governments worldwide began to shut down their economies—credit markets seized and the economy teetered on the brink of collapse. But with Congress' help, Chairman Powell acted swiftly and appropriately to stabilize the financial markets and the economy.

And to his critics who claim that the regulatory reforms he spearheaded would hasten the collapse of the banking system, we now know that's empirically false. After the pandemic caused the economy to nearly collapse, our country emerged with the most well-capitalized banks in history. It was, and still is, abundantly clear that those regulatory reforms did not come at the expense of financial stability.

Of course, none of the Fed's pandemic actions came without a cost. This negative-real interest rate environment continues to distort markets, risk asset bubbles, and punish savers. And the Fed has dramatically expanded its balance sheet with trillions in government bonds, effectively monetizing a lot of debt, facilitating profligate government spending.

For the past eighteen months, I cautioned that the Fed was fighting the last war—a mystery pathogen that led governments to collectively shut down the global economy—when a new enemy is here: Inflation.

I'm relieved the Fed has acknowledged inflation is running well above and longer than its initial projections. In response, the Fed has accelerated the termination of its bond buying program. And FOMC participants appear to be accelerating the process to normalize interest rates.

But I remain concerned with the Fed's actions going forward. First, I worry that this has become the new normal for the Fed's monetary policy. We're more than a year into record economic expansion, with unemployment at near all-time lows, and yet the Fed is still buying government and agency securities.

Having continued QE throughout the recovery was a mistake. It has contributed to asset bubbles, distorted markets, and a suboptimal allocation of capital, credit and resources, ultimately leading to lower economic growth.

Second, I worry that the Fed's new monetary policy framework has caused it to be behind the curve, as we are seeing with inflation running at a 39-year high. Under this framework, the Fed intentionally tolerates above target inflation for an indeterminate amount of time. Under the old approach, the Fed may have acted last April when we first passed 4% inflation.

Beyond monetary policy, I'm deeply concerned to see the Fed, especially at the regional banks, wade into politically-charged areas like global warming and so-called racial justice. Regional banks have hosted symposia on these issues that consistently embrace and advance a liberal political agenda.

And the Fed itself joined the Network of Central Banks and Supervisors for Greening the Financial System. The network's stated aim is to use financial regulation to "mobilize mainstream finance to support the transition toward a sustainable economy." In other words, to direct credit away from the fossil fuel sector.

The troubling politicization of the Fed puts its independence and effectiveness at risk. The Fed has been granted operational independence to protect monetary policy from short-sighted political interests. And in turn, the Fed has operated largely apolitically to great effect.

There's a kind of bargain here: the Fed is given independence on the assumption it will only engage in areas in which it has a mandate. That makes sense.

But if the Fed is going to stray from its mandate and become a political actor, advocating a certain set of social policies, then there's no way it's going to maintain its independence from the political branches of government that are actually responsible for those topics.

The Fed does not have a mandate to advance politically-charged causes that are irrelevant to its mandate, like addressing global warming or advancing so-called racial justice. And to make matters worse, when I've sought to understand these developments, I've been met with unacceptable noncompliance.

Let me be clear—if this politicization continues unchecked—it will not end well for the Fed or for independently-driven monetary policy. As the Fed's leader, I hope you take this seriously and rein it in to protect the Fed's legitimacy and independence.

I've observed that the Fed has had the good sense to adjust its behavior as the facts and circumstances regarding inflation have come in differently than they expected. Unfortunately, we've seen no such humility or recognition of reality from the Biden administration, or our Democrat colleagues.

They appear set on making the inflationary problem worse with more reckless spending that gooses demand and regulatory and protectionist policies that limit supply, that in combination ultimately push prices for basic goods higher. The crisis we face now is inflation complicated by policymakers who unwisely behave as if it's still March 2020.

The Fed cannot correct for policy failures like school closures, government-induced business shutdowns, or misguided expansions of the welfare state—nor should it try.

Chairman Powell, the role of the Fed Chairman is crucial for our shared economic prosperity. I was encouraged to see your re-nomination, and I hope that you will do everything in your power to ensure that the Fed operates within its limited mandate to effectively support the American economy.