United States Senate

WASHINGTON, DC 20510

July 30, 2024

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

Dear Chair Powell,

We are writing to urge you to follow the data as you make monetary policy. In recent weeks, Republican members of Congress have threatened the Federal Reserve Board's (Fed) independence, suggesting that the Fed cutting rates before the 2024 election would be "viewed as political."[1] However, the data tells a different story: economic experts across the political spectrum are now calling for the Federal Reserve to act.[2] Because the economic data suggests that the federal funds rate should already be lower than it is now,[3] we urge you to cut the rate at the Federal Open Market Committee (FOMC) meeting on July 30th and 31st.

A rate cut at your meeting this week would represent the polar opposite of a "political" intervention. Indeed, given that the data appears to clearly justify cutting rates, the failure to do so would indicate that the Fed is giving in to bullying, and is putting political considerations ahead of its dual mandate to "promote maximum employment and stable prices."[4]

Recent economic reports have convinced leading experts that the Fed needs to cut rates in July. The personal consumption expenditures (PCE) index decreased for the third straight month in June, showcasing that PCE inflation has slowed considerably, making "the decision to cut rates easy," according to economist Robert Frick.[5] While the labor market is healthy and inflation is

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[1] House Financial Services Committee, "The Federal Reserve's Semi-Annual Monetary Policy Report," July 10, 2024, https://financialservices.house.gov/calendar/eventsingle.aspx?EventID=409311; Reuters, "Powell says Fed will cut rates when ready, regardless of political calendar," Howard Schneider, July 10, 2024, https://www.reuters.com/markets/us/feds-powell-says-balance-sheet-drawdown-still-has-ways-go-2024-07-10/.

[2] Cato Institute, "It Is Time for the Fed to Cut Rates," Jai Kedia, July 15, 2024, https://www.cato.org/blog/it-time-fed-cut-rates; The American Prospect, "Inflation is Whipped. Someone Wake Up Jerome Powell," Ryan Cooper, July 12, 2024, https://prospect.org/economy/2024-07-12-inflation-whipped-someone-wake-up-jerome-powell/.

[3] Cato Institute, "It Is Time for the Fed to Cut Rates," Jai Kedia, July 15, 2024, https://www.cato.org/blog/it-time-fed-cut-rates; The American Prospect, "Inflation is Whipped. Someone Wake Up Jerome Powell," Ryan Cooper, July 12, 2024, https://prospect.org/economy/2024-07-12-inflation-whipped-someone-wake-up-jerome-powell/; Bloomberg, "Wall Street Economists See Compelling Case for Fed to Cut Now," Steve Matthews, July 16, 2024, https://www.bloomberg.com/news/articles/2024-07-16/wall-street-economists-see-compelling-case-for-fed-to-cut-now?srnd=undefined&sref=cv51C53O.

[4] The Federal Reserve Explained, "How We Conduct Monetary Policy," https://www.federalreserve.gov/aboutthefed/fedexplained/monetary-policy.htm.

[5] CNBC, "Fed's key inflation gauge rose 2.5% in June from a year ago, easing path to rate cut," Jeff Cox, July 26, 2024, https://www.cnbc.com/2024/07/26/pce-inflation-june-2024-.html.

declining, the unemployment rate increased from 3.6 percent to 4.1 percent from June of last year to June of this year, which the Wall Street Journal's chief economics commentator Greg Ip argues is "seldom seen outside recessions."[6] As Ip contends, the increase in unemployment may be indicative of a trend because when unemployment ticks upwards, "it tends to keep going up."[7] Additionally, job openings are down nearly 20 percent from last year, and the ratio of unfilled jobs to unemployed workers is down to pre-pandemic levels.[8] While wage growth remains strong, it has slowed in recent months, and surveys of companies' pay plans indicate that it is likely to continue slowing into next year.[9] The one-two punch of rising unemployment and slowing wage growth risks erasing the post-pandemic economic gains.

The federal funds rate has stayed in the 5.25-5.5 percent range for a year, its highest level in more than 20 years.[10] The government's pandemic-era spending left businesses and consumers with "plenty of cash to spend," but over three years after the last stimulus, households are feeling the pressure of high rates—particularly on their credit cards and auto loans.[11] As we wrote in June, the Fed's high interest rates are not an effective tool to address the remaining significant drivers of inflation, such as automobile and housing costs—and high interest rates may actually be making these problems even worse.[12] Consumers are feeling the pressure of tight lending. Atlanta Fed President and FOMC member Raphael Bostic said that consumers in his region are "at [their] limit" and cannot shoulder the burden of high interest rates for much longer.[13] Another key Wall Street analyst made the case clearly: "Waiting too long risks a higher peak in unemployment for little additional reward on the inflation front."[14]

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[6] Wall Street Journal, "Why the Fed Should Cut Rates Now–Not Wait Until September," Greg Ip, July 18, 2024, https://www.wsj.com/economy/central-banking/why-the-fed-should-cut-rates-nownot-wait-until-september-806b8ddf.

[7] *Id*.

[8] CNBC, "Job openings fell again in April, hitting lowest level since February 2021 in a sign of labor market weakening," Jeff Cox, June 4, 2024, https://www.cnbc.com/2024/06/04/job-openings-report-april-2024-job-openings-fell-again.html; Bloomberg, "I Changed My Mind. The Fed Needs to Cut Rates Now.," Bill Dudley, July 24, 2024, https://www.bloomberg.com/opinion/articles/2024-07-24/the-fed-needs-to-cut-interest-rates-now.

[9] Wall Street Journal, "Why the Fed Should Cut Rates Now–Not Wait Until September," Greg Ip, July 18, 2024, https://www.wsj.com/economy/central-banking/why-the-fed-should-cut-rates-nownot-wait-until-september-806b8ddf.

[10] CNBC, "The Federal Reserve is about to make another interest rate decision. What are the odds of a cut?," Aimee Picchi, June 11, 2024, https://www.cbsnews.com/news/federal-reserve-interest-rate-mortgage-rates-meeting-june-2024/.

[11] Bloomberg, "I Changed My Mind. The Fed Needs to Cut Rates Now.," Bill Dudley, July 24, 2024, https://www.bloomberg.com/opinion/articles/2024-07-24/the-fed-needs-to-cut-interest-rates-now.

[12] Letter from Senators Elizabeth Warren, Jacky Rosen, and John Hickenlooper to Federal Reserve Chair Jerome Powell, June 10, 2024, https://www.warren.senate.gov/imo/media/doc/2024.06.10%20Letter%20to%20Fed.%20re%20interest%20rates.pdf; Letter from Senators Whitehouse and Boyle, June 10, 2024, https://democrats-budget.house.gov/sites/evo-subsites/democrats-budget.house.gov/files/evo-media-document/boyle-whitehouse-letter-to-powell-6.10.24.pdf.

[13] Washington Post, "Inflation eased further in June, helping cement path to rate cuts," Rachel Siegel, July 12, 2024, https://www.washingtonpost.com/business/2024/07/11/cpi-inflation-fed/.

[14] Bloomberg, "Wall Street Economists See Compelling Case for Fed to Cut Now," Steve Matthews, July 16, 2024, https://www.bloomberg.com/news/articles/2024-07-16/wall-street-economists-see-compelling-case-for-fed-to-cut-now?srnd=undefined&sref=cv51C53O.

One of the most widely-followed monetary policy guidelines suggests the rate should be cut by 150 basis points, to 4 percent, in July.[15] The Fed cannot and should not continue waiting to cut rates: as Goldman Sachs' Chief Economist Jan Hatzius noted, there is "a solid rationale for cutting as early as the July 30 meeting. If the case for a cut is clear, why wait another seven weeks before delivering it?"[16]

Refusing to follow the economic data and succumbing to political threats would be a subversion of your mandate. We urge you to make monetary policy in the interests of the American public, not a particular political party.

Thank you for your attention to this matter.

Sincerely,

Elizabeth Warren
United States Senator

John Hickenlooper
United States Senator

Sheldon Whitehouse
United States Senator

[15] *Id.*
[16] *Id.*