United States Senate
WASHINGTON, DC 20510–0609

October 27, 2022

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:

I write to urge the Federal Reserve to pause and seriously consider the negative consequences of again raising interest rates.

The Federal Reserve's decision making is driven by its dual mandate to keep inflation and unemployment low. Curbing today's record-high inflation is essential, especially while we enjoy near full employment. It is paramount we keep energy costs, grocery bills, and other everyday prices low. This is why Congress passed, among other pieces of legislation, the Inflation Reduction Act, the CHIPS + Science bill, and the Ocean Shipping Reform Act. These long overdue investments will lower the cost of health care, prescription drugs, and energy, and improve domestic supply chains and spur domestic manufacturing. Still, inflation remains stubbornly high, which has drawn the attention of the Federal Open Market Committee.

Of course, inflation is harming families across the country. But there are causes of inflation beyond the amount of money in circulation. As my colleague Senate Banking Committee Chair Sherrod Brown noted, continued Russian aggression in Ukraine keeps energy costs elevated worldwide. Supply chain issues leave shelves unstocked. Labor shortages nationwide restrict the ability of restaurants and stores from providing services to customers. All of these factors contribute to inflation, yet the Fed does not possess tools to address those causes.

The Fed's bluntest tool is interest rate increases, and it has wielded that hammer repeatedly. However, after five straight rate increases by the Fed, I worry any additional action will undermine economic growth and harm American families. To date, the Fed's actions have failed to stem inflationary pressure on Americans. As one Nobel Prize winning economist stated, "Will raising interest rates lead to more oil, lower prices of oil, more food, lower prices of food? Answer is clearly not. In fact, the real risk is it will make it worse." [1]

[1] Joseph Stiglitz, Nobel Prize winning economist. https://www.cnbc.com/2022/09/02/joseph-stiglitz-thinks-further-fed-rate-hikes-could-make-inflation-worse.html

We both acknowledge there can be significant lag time between those actions and the full impact: as long as 6 months to 1 year[2], but this lag time should encourage caution rather than haste. It would be prudent to wait for the lag period before taking additional action to ensure that we are not doing more harm than good.

In addition, the Fed has been aggressive. Indeed, it has raised interest rates by 3 percentage points since March, "the fastest increase of that size since 1982." [3] Given current levels of inflation, that is understandable. However, the Fed should note the totality of effects before raising rates again.

What are those effects? Mortgage rates have skyrocketed, borrowing costs for Main Street businesses have risen, credit card payments have gone up as interest payments have climbed, car loans are becoming more expensive. The risk is that higher interest rates will lead us into a potential recession, hurting the middle-class workers who have not seen wage gains in decades.[4] A Federal Reserve overreach could crush wage increases and hurt workers who are blameless for inflation.[5]

While inflation remains high – thus eroding consumers' purchasing power – the Fed's actions have further increased the cost of living, which has particularly impacted middle-class families and communities of color. The prices of the above-listed goods and services have risen, and yet, the Fed's actions have not brought other prices down.

High inflation necessitates a response. But the concern is the Fed is doing too much, too quickly. It has already taken drastic action by raising rates by so much in a short period of time. We should wait to see the effects on the economy and how those changes are absorbed. Relief for American consumers is on the horizon as housing prices start to cool[6] and businesses inventories increase. Raising rates now when prices may come down would be foolish and damaging to American consumers and small businesses.

Sincerely,

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[2] https://www.washingtonpost.com/business/the-fed-is-giving-americans-aharsh-lesson-in-lag-time/2022/10/18/21b42eb2-4ed4-11ed-ada8-04e6e6bf8b19_story.html

[3] Washington Post, "Fed unsure of economy's direction as Wall Street meltdown worsens," David J. Lynch, September 24, 2022, https://www.washingtonpost.com/us-policy/2022/09/24/fed-inflation-recession-wall-street/.

[4] Peter Diamond, Nobel Prize winning economist https://www.morningstar.com/news/marketwatch/20220919170/in-rare-sit-down-nobel-prizewinning-economist-peter-diamond-sees-significant-power-shift-from-employers-to-workers-underway

[5] https://www.cnbc.com/2022/09/26/whartons-siegel-says-jerome-powell-owes-the-american-people-an-apology-for-poor-fed-policy.html

[6] https://www.wsj.com/articles/home-price-growth-slowed-in-august-11666702621

John Hickenlooper
United States Senator