

# United States Senate

WASHINGTON, DC 20510

September 16, 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 write today to urge the Federal Reserve (Fed) to cut the federal funds rate, currently at a two-decade-high of 5.3 percent, by 75 basis points (bps) at the Federal Open Market Committee (FOMC) meeting on September 17 and 18, 2024. Given the Fed’s confidence in inflation moving towards its target of 2 percent and data indicating slower job growth, now is the time to swiftly move forward with rate cuts.

For months we have been calling upon you to cut the federal funds rate.<sup>1</sup> As we wrote in June, the Fed’s elevated interest rates are not successfully addressing the remaining drivers of inflation, including housing costs—and might even be making them worse.<sup>2</sup> We were encouraged to hear your remarks this past month when you acknowledged that “[t]he time has come for policy to adjust.”<sup>3</sup> It is clearly the time for the Fed to cut rates.

In fact, it may be too late: your delays have threatened the economy and left the Fed behind the curve. Inflation has fallen to 2.5 percent, well below the mid-2022 peak of 7 percent and just above the Fed’s target of 2 percent.<sup>4</sup> You have stated that the central bank is looking for “greater

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<sup>1</sup> Letter from Senators Elizabeth Warren and Sheldon Whitehouse to Federal Reserve Chair Jerome Powell, March 19, 2024, <https://www.warren.senate.gov/oversight/letters/warren-whitehouse-to-federal-reserve-chair-powell-high-interest-rates-are-blocking-clean-energy-progress-increasing-energy-costs>; 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 Elizabeth Warren, John Hickenlooper, and Sheldon Whitehouse to Federal Reserve Chair Jerome Powell, July 30, 2024, [https://www.warren.senate.gov/imo/media/doc/final\\_-\\_warren\\_hickenlooper\\_whitehouse\\_letter\\_to\\_fed\\_on\\_lowering\\_interest\\_rates.pdf](https://www.warren.senate.gov/imo/media/doc/final_-_warren_hickenlooper_whitehouse_letter_to_fed_on_lowering_interest_rates.pdf).

<sup>2</sup> 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 Senator Whitehouse and Representative Boyle, June 10, 2024, <https://democratsbudget.house.gov/sites/evo-subsites/democrats-budget.house.gov/files/evo-media-document/boyle-whitehouseletter-to-powell-6.10.24.pdf>.

<sup>3</sup> Federal Reserve, “Remarks by Chair Jerome Powell at the economic symposium sponsored by the Federal Reserve Bank of Kansas City, Jackson Hole, Wyoming,” August 23, 2024, <https://www.federalreserve.gov/newsevents/speech/powell20240823a.htm>.

<sup>4</sup> Bureau of Economic Analysis, “Personal Income and Outlays, July 2024,” August 30, 2024, <https://www.bea.gov/news/2024/personal-income-and-outlays-july-2024>; CNN, “Latest inflation data gives a ‘bright green light’ for a rate cut,” Alicia Wallace, August 30, 2024, <https://www.cnn.com/2024/08/30/economy/pce->

confidence” that inflation is moving to the 2 percent target, and it is clear that the inflation data is pointing in that direction.<sup>5</sup> Indeed, one columnist warned investors to “adjust to the notion that inflation could soon undershoot the Federal Reserve’s 2% target.”<sup>6</sup> At the same time, the unemployment rate has ticked up to 4.2 percent, from 3.5 percent in July 2023.<sup>7</sup> In a Senate Banking, Housing, and Urban Affairs Committee hearing in July you noted that “[i]n light of the progress we’ve made [ ] in lowering inflation...elevated inflation is not the only risk we face,” stating that cutting interest rates “too late or too little could unduly weaken economic activity and employment.”<sup>8</sup> Employment numbers adjust slowly, so the Fed should frontload rate cuts to avoid sliding towards a potential crisis.

Last month you emphasized that the Fed “[does] not seek or welcome further cooling in labor market conditions,” but there is a real risk that that is happening.<sup>9</sup> At the end of August 2024, the Bureau of Labor Statistics released their preliminary benchmark annual review of employment data, which revealed that there were 818,000 fewer jobs in the 12 months that ended in March of this year than were initially estimated.<sup>10</sup> While these are not job losses, they do indicate that job growth has been much slower than the data previously indicated. Some conservative economists believe that job growth has been even weaker since then.<sup>11</sup> The Economic Policy Institute (EPI) stated: “there is no reason why the Fed should be looking to generate a *weaker* labor market, but recent months have seen signs of a slight softening at the labor markets on the margin.”<sup>12</sup> While the economy remains strong overall, this softening of the labor market offers further justification for lowering rates.

The FOMC must cut rates by more than the 25 bps cut that some Fed officials have already signaled.<sup>13</sup> A rate cut of 75 bps would put the federal funds rate at 4.5 - 4.75%, which would still be higher than it was at any point between November 2007 and January 2023.<sup>14</sup> Moreover, the

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[inflation-spending-fed-july/index.html](#).

<sup>5</sup> AP News, “Powell at Jackson Hole: ‘The time has come’ for the Fed to soon begin reducing interest rates,” August 23, 2024, <https://apnews.com/article/interest-rates-prices-inflation-federal-reserve-economy-2cd182eb34a7d6772ff573bec0bcf64d>; CNBC, “Powell indicates Fed won’t wait until inflation is down to 2% before cutting rates,” Jesse Pound, July 15, 2024, <https://www.cnbc.com/2024/07/15/powell-indicates-fed-wont-wait-until-inflation-is-down-to-2percent-before-cutting-rates.html>.

<sup>6</sup> Reuters, “US inflation may soon undershoot Fed’s 2% target,” Jamie McGeever, September 9, 2024, <https://www.reuters.com/markets/us/us-inflation-may-soon-undershoot-feds-2-target-mcgeevers-2024-09-09/>.

<sup>7</sup> *Id.*

<sup>8</sup> Senate Committee on Banking, Housing, and Urban Affairs, “Semiannual Monetary Policy Report,” July 9, 2024, <https://www.banking.senate.gov/hearings/07/01/2024/the-semiannual-monetary-policy-report-to-the-congress>.

<sup>9</sup> Federal Reserve, “Remarks by Chair Jerome Powell at the economic symposium sponsored by the Federal Reserve Bank of Kansas City, Jackson Hole, Wyoming,” August 23, 2024, <https://www.federalreserve.gov/newsevents/speech/powell20240823a.htm>.

<sup>10</sup> CNN, “New data shows US job growth has been far weaker than initially reported,” Alicia Wallace, August 21, 2024, <https://www.cnn.com/2024/08/21/economy/bls-jobs-revisions/index.html>.

<sup>11</sup> *Id.*

<sup>12</sup> Economic Policy Institute, “The labor market remains strong yet the Fed should cut rates in September,” Elise Gould and Josh Bivens, September 9, 2024, <https://www.epi.org/blog/the-labor-market-remains-strong-yet-the-fed-should-cut-rates-in-september/>.

<sup>13</sup> Reuters, “Fed policymakers say they are ready to start cutting interest rates,” Ann Saphir, Lindsay Dunsmuir and Michael Derby, September 6, 2024, <https://www.reuters.com/markets/rates-bonds/fed-seen-delivering-upsized-rate-cut-us-job-growth-cools-2024-09-06/>.

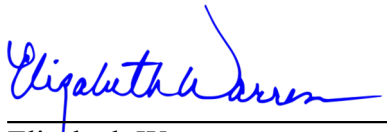
<sup>14</sup> Federal Reserve Bank of St. Louis, “Federal Funds Effective Rate,” <https://fred.stlouisfed.org/series/FEDFUNDS>.

EPI noted that we should be much closer to neutral levels given the non-inflationary labor market, and “everybody knows it’s nowhere near the 5.3% effective federal funds rate the Fed is maintaining today. 3-3.5% would be a lot closer to neutral.”<sup>15</sup>


If the Fed is too cautious in cutting rates, it would needlessly risk our economy heading towards a recession. A number of economists have warned of this risk since July.<sup>16</sup> Former president of the Federal Reserve Bank of New York, Bill Dudley, wrote, “dawdling now unnecessarily increases the risk.”<sup>17</sup> The Committee must consider implementing rate cuts more aggressively upfront to mitigate potential risks to the labor market.<sup>18</sup>

Thank you for your attention to this matter.

Sincerely,



Elizabeth Warren  
United States Senator



Sheldon Whitehouse  
United States Senator



John Hickenlooper  
United States Senator

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<sup>15</sup> Economic Policy Institute, “The labor market remains strong yet the Fed should cut rates in September,” Elise Gould and Josh Bivens, September 9, 2024, <https://www.epi.org/blog/the-labor-market-remains-strong-yet-the-fed-should-cut-rates-in-september/>.

<sup>16</sup> PBS News, “Economist says Federal Reserve too slow to cut interest rates and weakening the economy,” August 2, 2024, <https://www.pbs.org/newshour/show/economist-says-federal-reserve-too-slow-to-cut-interest-rates-and-weakening-the-economy>; 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>; 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>; Investopedia, “Why Some Economists Think the Fed Should Cut Interest Rates This Month,” Terry Lane, July 24, 2024, <https://www.investopedia.com/some-economists-see-case-for-july-fed-interest-rate-cut-8679605>.

<sup>17</sup> 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>.

<sup>18</sup> The Economic Times, “The Fed should cut rates swiftly - recession or not,” Conor Sen, August 5, 2024, <https://economictimes.indiatimes.com/news/international/world-news/us-recession-us-economic-problems-fed-rate-cut-the-fed-should-cut-rates-swiftly-recession-or-not/articleshow/112288642.cms?from=mdr>.