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**U.S. House of Representatives Committee on Financial Services  
Subcommittee on Monetary Policy and Trade**

**Hearing on “The Federal Reserve’s Impact on Main Street, Retirees, and Savings”**

**June 28, 2017**

Mr. Chairman, Ranking Member Moore, and Members of the Subcommittee:

Thank you for the opportunity to testify on the important topic of how the Federal Reserve’s policies affect Main Street, retirees, and savers. In my testimony today, I would like to make five principal points:

1. Accommodative monetary policy since the Great Recession has produced a strong (albeit gradual) economic recovery in the United States—and a stronger recovery than would have occurred without accommodative monetary policy.
2. While the employment effects of accommodative monetary policy have differed across people, everyone has benefited from more job growth in the country and the greater increase in output that resulted.
3. The effects of accommodative monetary policy on savers and retirees have differed across people just as the effects of monetary policy on employment have differed across people. The lower interest rates associated with accommodative monetary policy have hurt some savers by reducing their interest income but have helped some savers by boosting prices of assets like stocks and houses.
4. The Federal Reserve should be accountable to the Congress for its actions, but some of the provisions in the CHOICE Act would materially impair the Federal Reserve’s ability to support a strong economy and low and stable inflation.
5. Achieving financial security in retirement is an important challenge for many Americans, and various aspects of federal policy apart from monetary policy can and should be used to enhance financial security.

Let me now elaborate on these five points.

1. *Accommodative monetary policy since the Great Recession has produced a strong (albeit gradual) economic recovery in the United States—and a stronger recovery than would have occurred without accommodative monetary policy.*

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<sup>1</sup> More complete information about my background and current affiliations is provided in the attached resume. The views I express are my own and should not be attributed to Harvard University, the Peterson Institute for International Economics, or any of the other organizations with which I am affiliated.

The Federal Reserve has a dual mandate to use monetary policy to produce “maximum employment” and “stable prices.” In keeping with this mandate, the Federal Open Market Committee (FOMC) used accommodative monetary policy during the Great Recession and the subsequent slow recovery to boost job growth and bring down the unemployment rate. As people went back to work, output rose as well.

A key way in which accommodative monetary policy increases employment during and after recessions is by lowering interest rates. Lower interest rates enable businesses—both large and small—to borrow at a lower cost, and thereby to undertake more hiring and investment than they would otherwise. Lower interest rates also enable households to finance their purchases of houses and cars and other items more cheaply, so they can spend more; lower rates also enable households to refinance their mortgages with lower-cost loans, leaving them with more money to spend on other goods and services. Those increases in business and household spending lead to more hiring, more output, and more income—which in turn increases spending further. The result is a stronger economy.

Accommodative monetary policy by the Federal Reserve has played a critical role in a recovery that started slowly but has now become very strong. Recall that the United States suffered the worst downturn since the Great Depression. But real U.S. gross domestic product (GDP) is now 17 percent above its low point during the recession, and we have seen 86 consecutive months of private-sector job growth since employment began to recover in the spring of 2009. Almost 17 million private-sector jobs have been created since that point, and the unemployment rate, at 4.3 percent, is now at its lowest level since 2001. Measures of *under*-employment have also shown enormous improvement, and wage growth has started to pick up, although weak productivity growth and other factors are still holding wage growth below pre-recession norms. Meanwhile, consumer inflation has remained very subdued, with the most widely watched measures actually having declined a bit in recent months. The latest 12-month change in the personal consumption expenditures (PCE) price index, at 1.7 percent in April, was below the Fed’s target inflation rate of 2 percent.

Crucially, the economic recovery in this country has outpaced that in a number of other countries where central banks were unable or unwilling to pursue sufficiently expansionary monetary policy. For example, a recent report from the Organization for Economic Cooperation and Development (OECD) discussed how the recovery from the Great Recession in the United States has been among the strongest among OECD member countries.<sup>2</sup> The report attributed the success of the U.S. economic recovery partly to “robust monetary policy support.”

2. *While the employment effects of accommodative monetary policy have differed across people, everyone has benefited from more job growth in the country and the greater increase in output that resulted.*

Some people have undoubtedly benefited more than others from the Federal Reserve’s efforts to restore a healthy labor market in this country. For example, someone who found a new job after

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<sup>2</sup> See Organization for Economic Cooperation and Development (2016), [Overview of the 2016 Economic Survey of the United States](#).

being laid off during the Great Recession benefited more from accommodative monetary policy than a neighbor who was fortunate enough to have stable employment throughout the recession.

However, the benefits of the stronger labor market that was created by the Federal Reserve's actions have not been limited to the unemployed people who found jobs. Employed people were more likely to see increases in their wages and salaries and more likely to find better job opportunities with other employers. And the additional income generated by the new jobs and better jobs caused those workers to spend more on goods and services, which encouraged businesses to expand by hiring yet more people, buying new equipment, and building new plants or facilities. Likewise, more income from the stronger labor market helped people buy homes, creating a stronger housing market.

I want to particularly emphasize the importance of restoring a healthy labor market to small businesses. You are right to be concerned, in the focus of this hearing, about Main Street: Small businesses employ roughly half of all Americans and account for about 60 percent of gross job creation (that is, job creation before incorporating the effects of job destruction).<sup>3</sup> In addition, research has shown that young businesses, which tend to be small businesses, are critical to innovative activity in this country.<sup>4</sup> Moreover, small businesses experienced larger job losses than their larger counterparts during the Great Recession.<sup>5</sup> But, small businesses would have faced far greater struggles in recent years if demand for their good and services had been weaker because monetary policy was not sufficiently accommodative. The stronger housing market fostered by accommodative monetary policy also benefited small businesses because small business owners often rely on home equity loans for financing; many of these proprietors found themselves cut off from this source of credit when their mortgages were under water following the housing bust, but the recovery in home prices has restored housing equity against which they can borrow.

- 3. The effects of accommodative monetary policy on savers and retirees have differed across people just as the effects of monetary policy on employment have differed across people. The lower interest rates associated with accommodative monetary policy have hurt some savers by reducing their interest income but have helped some savers by boosting prices of assets like stocks and houses.*

Savers and retirees are affected by many aspects of our economy that are influenced by monetary policy. Therefore, understanding the full effects of accommodative monetary policy on savers and retirees requires careful analysis of many economic factors. In this testimony, I can provide only a rough sense of some of the considerations.

Some of the assets held by savers and retirees pay interest income, and the amount of that income depends on monetary policy as well as other forces. However, those assets represent a small share of all assets. Interest-bearing accounts—such as checking accounts, savings

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<sup>3</sup> See Bernanke, Ben S. (2010), "[Restoring the Flow of Credit to Small Businesses](#)."

<sup>4</sup> See Decker, Ryan, John Haltiwanger, Ron Jarmin, and Javier Miranda (2014), "[The Role of Entrepreneurship in US Job Creation and Economic Dynamism](#)," *Journal of Economic Perspectives* 28(3).

<sup>5</sup> See Ayşegül Şahin, Sagiri Kitao, Anna Cororaton, and Sergiu Laiu (2011), "[Why Small Businesses were Hit Harder by the Recent Recession](#)," *Federal Reserve Bank of New York Current Issues in Economics and Finance*.

accounts, CDs, money market deposit accounts, and call or cash accounts at brokerages—represent only about 5 percent of overall household assets according to recent research.<sup>6</sup> Most household wealth is held through stocks, retirement accounts, business equity, and real estate. The returns on those assets also depend on monetary policy and other forces.

The accommodative monetary policy pursued by the Federal Reserve since the Great Recession has lowered the returns earned by savers and retirees on interest-bearing assets. But that policy has also boosted the returns on other types of assets held by savers and retirees. For example, stock prices have risen strongly in recent years, adding more than \$18 trillion to household wealth since the worst of the financial crisis in early 2009. And housing wealth, a particularly important part of the nest eggs of many older households, has risen by close to \$7 trillion since that time.

Recent research examining the experience of retirement-age households between 2007 and 2011 found middle- and upper-middle-class households are the most exposed to losses in interest income since low- and moderate-income households have few financial assets and the richest Americans tend to invest heavily in stocks.<sup>7</sup> Although I am sure that some in the most exposed groups suffered as a result of their losses (and we should not minimize that hardship), the research found that financial losses experienced by these groups generally amounted to less than 10 percent of their total income over the period studied.

In addition, many savers (and among them many retirees) are also borrowers, and therefore they benefited directly from the lower interest rates resulting from accommodative monetary policy. For example, many homeowners were able to refinance into lower-cost mortgages after the Federal Reserve began to cut interest rates in 2007. According to the Survey of Consumer Finances, 43 percent of households with heads between the age of 65 and 74, and 14 percent of households with heads 75 or older, had mortgages on their primary residences in 2007.<sup>8</sup>

The importance to retirement security of a healthy labor market also deserves emphasis. The Federal Reserve's efforts to support the labor market raised incomes, which made saving for retirement easier than it would have been otherwise. Having a stronger labor market also reduced the number of forced, early retirements relative to what would have occurred if the high unemployment rate of the Great Recession had persisted longer, and it enabled more people to delay retirement to make up for the financial losses they suffered during the financial crisis. For many older workers, the benefits of being able to avoid unplanned retirements and to delay retirements when they chose (as well as the other benefits of accommodative monetary policy) were likely much larger than the costs of lower interest income.

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<sup>6</sup> See Haltom, Renee (2012), "[Winners and Losers from Monetary Policy](#)" Federal Reserve Bank of Richmond Econ Focus.

<sup>7</sup> See Kocke, Richard W. and Anthony Webb (2013), "[How Has the Financial Crisis Affected the Consumption of Retirees?](#)" Center for Retirement Research at Boston College.

<sup>8</sup> Bricker, Jesse, Arthur B. Kennickell, Kevin B. Moore, and John Sabelhaus (2012), "[Changes in U.S. Family Finances from 2007 to 2010: Evidence from the Survey of Consumer Finances](#)," *Federal Reserve Bulletin*.

4. *The Federal Reserve should be accountable to the Congress for its actions, but some of the provisions in the CHOICE Act would materially impair the Federal Reserve's ability to support a strong economy and low and stable inflation.*

The Federal Reserve was created by the Congress to implement monetary policy, and clearly the Federal Reserve should be accountable to the Congress for that implementation. At the same time, historical experience and formal studies have repeatedly demonstrated the importance of insulating monetary policy from short-term political pressures. For example, countries with less independent central banks tend to have higher inflation.<sup>9</sup> Therefore, the ways in which the Federal Reserve is accountable to the Congress should be chosen carefully.

Current law requires significant accountability from the Federal Reserve, and additionally the FOMC has taken a number of important steps over the past decade to increase the predictability and transparency of its actions. For example, the Chair and other members of the FOMC regularly report and explain their decisions to Congress and the public through testimonies, press conferences and speeches; the FOMC releases minutes of its meetings to the public and publishes the economic projections of individual members on a quarterly basis; and the Federal Reserve posts information about its balance sheet and discount-window lending on its website. As a result, for example, the Congress and the public currently have a great deal of information about the FOMC's intentions with regard to the normalization of monetary policy in coming years.

While I think it is appropriate to consider whether additional steps could be taken to increase the accountability of the Federal Reserve in ways that would enhance the performance of the U.S. economy, some provisions in Title X of the CHOICE Act would produce the opposite result by undermining the Federal Reserve's independence in counterproductive ways.

In particular, the provisions that would allow the Government Accountability Office (GAO) to perform a so-called audit of the Federal Reserve's monetary policy decisions could create unhealthy political pressures that might hinder the FOMC's ability to act in the interest of the country. Reviewing monetary policy decisions is totally unlike traditional audits of financial statements. The excellent analysts at GAO have great experience in reviewing financial statements, and they perform a critical public service by auditing such statements from agencies across the government; however, the GAO analysts bring no special expertise to evaluating monetary policy decisions. And the process of reviewing those decisions in the way envisioned in the CHOICE Act could strengthen political pressures that might discourage the FOMC from taking the actions (particularly those that are unpopular) needed to achieve maximum employment and stable prices—for example, by raising interest rates if inflation moves significantly higher.

Also, the provisions of the CHOICE Act that would require the Federal Reserve to conduct monetary policy through strict, predetermined rules might also hinder the FOMC's ability to act in the interest of the country. Although the so-called Taylor Rule is a useful general framework for thinking about monetary policy and has been an important input to monetary policy decisions

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<sup>9</sup> See Federal Reserve Bank of St. Louis (2009), "[Central Bank Independence and Inflation](#)" *Annual Report 2009*.

in this country and others for a few decades, forcing the FOMC to closely tie its actions to a particular version of this rule would not enhance the Federal Reserve's ability to implement monetary policy effectively. Given the complexity of our economy and the speed at which adverse economic and financial developments can arise, the Federal Reserve needs to be able to react to all incoming information and to make ongoing judgments about the appropriate monetary policy actions for achieving maximum employment and stable prices.

5. *Achieving financial security in retirement is an important challenge for many Americans, and various aspects of federal policy apart from monetary policy can and should be used to enhance financial security.*

Although I believe that retirement security in this country is higher, not lower, because of the Federal Reserve's actions in recent years, there are still too many Americans who are not adequately prepared for retirement.

Although most people will receive Social Security benefits when they are older, and some will receive regular payouts from defined benefit pensions, those sources of income are generally not sufficient to make up for the step-down in earnings that occurs at retirement. As a result, many people need to accumulate financial assets while working in order to maintain a reasonable standard of living in retirement.

Unfortunately, many Americans seem to have a great deal of trouble saving: According to the 2013 Survey of Consumer Finances, only 53 percent of households reported having saved over the preceding year. Low- and moderate-income households have particularly limited amounts of accumulated financial assets. According to the 2013 Survey of Consumer Finances, among households with heads between the age of 45 and 54—by which age people should have been saving for some years—the typical household in the lowest quintile of the net worth distribution had financial assets that amounted to about one week of income and had liquid assets that amounted to only a few days of income. The typical household in the next highest quintile had 5½ weeks of income in financial assets and just over one week in liquid assets. It is thus perhaps no surprise that in Gallup polls in recent years, only about 40 to 50 percent of respondents reported being confident that they will have enough money to live comfortably in retirement.<sup>10</sup>

Research suggests that one of the most effective ways to promote retirement saving among less-sophisticated savers is by making enrollment in a tax-deferred workplace retirement savings account easy and automatic.<sup>11</sup> Yet, many Americans lack any type of access to such plans: Only 60 percent of American private-sector workers had employers that offered 401(k)s or similar retirement savings plans as of 2015.<sup>12</sup> One way that Congress could help to address this challenge is by passing legislation adopting the “auto-IRA” proposal developed by economists at the Brookings Institution and the Heritage Foundation. Under this proposal, firms would automatically enroll workers without access to a 401(k)-type plan in an Individual Retirement

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<sup>10</sup> Riffkin, Rebecca (2014) “[More Americans Think They Will Retire Comfortably](#),” Gallup.

<sup>11</sup> See Chetty, Raj, John N. Friedman, Soren Leth-Petersen, Torben Neilsen, and Tore Olsen (2014), “Active vs. Passive Decisions and Crowding Out in Retirement Savings Accounts: Evidence from Denmark,” *Quarterly Journal of Economics*.

<sup>12</sup> Bureau of Labor Statistics (2015) *National Compensation Survey*.

Account, with the option to opt out (and with the government providing tax credits to cover the administrative cost).

Another way in which federal policy could promote retirement security is by helping all savers, large and small, get a fair shake in financial markets. For example, to help stock investors receive the returns they deserve, the government currently has rules regarding insider trading and disclosures by corporations. Congress could help further by supporting rules that help savers, particularly those who are less sophisticated, get good financial advice. For example, the Department of Labor's fiduciary rule that went into effect earlier this month took an important step in this direction by requiring financial advice to be in the best interest of savers. The fiduciary rule was formulated through a careful and deliberative process that included extensive engagement with the financial industry and other concerned parties to make sure that it would be workable and beneficial to American savers. Many financial firms adjusted their internal systems to be consistent with the rule before it went into effect, and I am encouraged that that we already are seeing new, lower-cost financial products that appear to be springing up as a result of the rule.

Efforts by the Administration and Congress to weaken or repeal the new fiduciary rule would cause noticeable harm to many American savers. A study done by President Obama's Council of Economic Advisers, which drew from a dozen independent peer-reviewed studies, found that American workers and retirees were losing \$17 billion a year in Individual Retirement Accounts alone because of financial advice that was not in the best interest of savers.<sup>13</sup>

Congress could also promote retirement security by helping to protect Americans from financial fraud. Older Americans appear to be particularly susceptible to investment fraud and other predatory practices. The Consumer Financial Protection Bureau (CFPB) has taken a number of transparent, data-driven actions to curb such abuses. The CFPB has also done research and issued reports regarding the specific challenges faced by older Americans as they navigate our complicated financial system. Efforts by Congress to curtail the CFPB's tools would undermine its ability to engage in these important activities. Congress could also consider taking legislative steps to protect the credit records of older Americans who become victims of financial fraud.

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<sup>13</sup> See Council of Economic Advisers (2015) "[The Effects of Conflicted Investment Advice on Retirement Savings](#)."