United States Senate Committee on Finance
Hearing to Consider the Anticipated Nomination of the Honorable Janet L. Yellen to Secretary of the Treasury
January 19, 2021
Follow-up Questions for the Record for Hon. Janet L. Yellen

Yellen Nomination Hearing Questions: Follow-ups on questions for the record put forward by Chuck Grassley on January 21, 2021

2. At various times during the campaign, President Biden suggested he would repeal the Tax Cuts and Jobs Act either in full or in part. Please indicate (yes or no) whether the incoming Biden Administration supports the following:

    a. Would the Biden Administration support repealing the doubling of the Child Tax Credit from $1,000 to $2,000? If no, would the Administration support making this provision permanent?
    b. Would the Biden Administration support repealing the enhanced standard deduction, which increased the standard deduction from $6,500 to $12,000 for singles, from $13,000 to $24,000 for married couples, and from $9,550 to $18,000 for heads of household in 2018? If no, would the Administration support making this provision permanent?
    c. Would the Biden Administration support repealing the reduced tax rates put in place for middle-class taxpayers, which included reducing the 15-percent bracket to 12 percent? If no, would the Administration support making this provision permanent?
    d. Would the Biden Administration support repealing the qualified business income deduction, which allows small businesses to deduct up to 20 percent of their qualified business income? If no, would the Administration support making this provision permanent?

Dr. Yellen did not answer each bulleted item to indicate whether the Biden Administration would support either the repeal or permanency of the specified provision.

<u>Answer</u>:

a) Both during the campaign and the transition, President Biden supported an expansion of the Child Tax Credit, namely making the credit fully refundable and raising the maximum value of the credit to $3,600 for families with young children, and $3,000 for others. During the campaign, he also firmly committed to a policy of avoiding tax increases on taxpayers with income under $400,000. Together, these suggest that the Biden-Harris Administration will support higher levels and refundability of the Child Tax Credit. These improvements to the Child Tax Credit would be expected to have a dramatic effect on lifting children out of poverty nationwide and I would welcome the opportunity to work with the committee on this effort.

b) Between the elimination of personal exemptions and expansion of the standard deduction, the Tax Cuts and Job Act put in place a series of reforms that shifted the relative tax burden for families largely based on household size and itemization status. I will need to study the economic and distributional implications of these combined reforms before making a judgement, and look forward to engaging with you and others in Congress on this important matter if confirmed.

c) During the campaign, President Biden supported repeal of the parts of the 2017 tax cuts that benefited the wealthiest Amerians and largest companies; he clarified that the repeal of certain aspects of the tax law would be restricted only to those taxpayers making more than $400,00 a year, with a firm commitment that taxpayers earning less than this amount would not see their taxes increase.

d) The goal of the Biden-Harris Administration is to provide support for small businesses through a variety of mechanisms, including expanded access to the PPP program and an array of programs designed to provide capital to underserved communities. Before making a judgment on this particular provision, I would need to study not only it's specific impact on small businesses, but the combined impact of other small business initiatives. I hope to closely consult with Congress as I better understand the impact of extending this provision.

3. Senate and House Democrats have argued for repealing the $10,000 cap on the state and local tax (SALT) deduction as part of pandemic relief efforts. According to the Tax Policy Center, a joint project of the Urban Institute and Brookings Institution where you are a Distinguished Fellow, such a proposal included in a House passed pandemic relief measure would provide the top 0.1 percent of households an average tax cut of nearly $144,000. At the same time it effectively would give no benefit to the bottom half of households. In your opinion, does it make sense for pandemic relief efforts to prioritize six-figure tax cuts for the wealthiest few when millions of middle-class American families are struggling to make ends meet? Would you oppose including a repeal of the SALT cap in any further relief or stimulus measures?

In response to question 4, Dr. Yellen indicates the Administration needs additional time to examine the SALT cap to come to a decision on whether the cap is justified. Given the need for additional time to review this issue, does this mean the Biden administration would not be supportive of efforts to repeal the SALT cap as part of impending COVID relief/stimulus efforts?

> <u>**Answer**</u>**: President Biden has released his proposal for an American Rescue Plan that would form the basis of a new COVID relief package. As you know, that proposal did not include a repeal of the SALT cap. As the process of passing related legislation moves to the next phase: I anticipate that, if confirmed, I would be in a position to evaluate a wide range of proposals, and that I would be able to do so during the course of any negotiations with the benefit of the expertise of the Treasury Department. I would also welcome the views of members of this Committee and others in Congress as we consider what provisions to include in any final relief package.**

6. Millions of retirees and participants in multiemployer pension plans face an impending crisis. Many plans are in poor financial health, and the PBGC's multiemployer pension insurance fund is projected to be insolvent in 2026 according to PBGC's latest annual report. I am committed to finding a bipartisan solution that can resolve this crisis. If confirmed, will you commit to working with this Committee and other interested Senators on a long-term solution that will secure the retirement benefits for these retirees while also reforming the underlying system and ensuring taxpayer dollars will not be used to finance a private-sector system in perpetuity?

In her response, Dr. Yellen notes that President Biden supports passage of the Butch Lewis Act. Since efforts in 2020 focused on an alternative approach using partition relief:

- **a. Does the Biden Administration support employing a partition approach to help failing multiemployer pension plans?**
- **b. Do you believe taxpayer dollars should be committed in perpetuity such that the government would effectively finance this private-sector pension system?**

Answer:

a) I am aware that while members of Congress would like to seek a resolution to the multi-employer pension crisis, there are competing approaches to a resolution -- including the Butch-Lewis legislation and the partition approach. I respect the expertise of members of Congress, many of whom have been working to resolve this issue for years, and look forward to further consultation on this issue.

b) I believe that workers should have access to their earned pension benefits, but also believe it is imperative to find an approach that does not create undue burdens on American taxpayers. This is a complex issue, and I am eager to work with members of Congress to find a solution to ensure that working families who rely on the commitment of a pension plan aren't left behind.

10. Prior to the Tax Cuts and Jobs Act (TCJA), the United States had one of the highest corporate income tax rates among developed countries. TCJA lowered the corporate rate to ensure that our domestic businesses would remain globally competitive. Even at 21 percent, the United States still holds the 11th highest corporate tax rate out of the top 36 developed countries, according to the Tax Policy Center.[1]

    President Biden has proposed increasing the 21-percent rate to 28 percent. If enacted, the United States once again would have one of the highest business tax rates among developed countries. Unfortunately, not just U.S. companies would be affected by the rate increase. There is an economic consensus that a significant portion of the corporate income tax falls on workers in the form of reduced wages and benefits. Even the Tax Policy Center, which is a joint venture of the Urban Institute and Brookings Institution where you are a Distinguished Fellow, assumes 20 percent of the corporate tax falls on workers. Similarly, the Joint Committee on Taxation and Congressional Budget Office have both concluded that 25 percent of the corporate tax is borne by workers. If the corporate tax rate is increased to 28 percent as proposed, American workers will also feel the burden through fewer jobs, reduced wages, and less benefits.

    What are your views on increasing the corporate tax rate above that of most developed countries, particularly if a significant portion of the rate increase would also be borne by American workers?

    With the unemployment rate continuing to be high due to the COVID-19 pandemic, wouldn't an increase in the corporate tax rate that is borne in significant part by labor hinder efforts to restore the historically low unemployment rates we saw in 2019?

Dr. Yellen did not respond to the first question regarding her view on an increase in corporate tax being borne by American workers. Please provide a direct and substantive response.

> <u>Answer</u>**: President Biden has proposed a slate of proposals that would strengthen the economy and benefit American workers. The question of corporate tax incidence is one that received substantial attention during the presidential campaign. The recent change in the corporate tax rate enacted as part of the TCJA provides an opportunity to study precisely how changes in the corporate rate impact wages, although virtually all public finance economists agree that these dynamics will play out over several years. Presently, there is little evidence of a material increase in wages and thus incidence on workers. I look forward to studying this issue further and consulting with both Congress and public finance experts, if confirmed.**

14. President Biden has proposed a new 15-percent corporate minimum tax based on book income, rather than taxable income as currently used in the tax code. As you know, book income, as reported on a company's financial statements, is designed to provide information on the company's performance for investors and creditors based on generally accepted accounting principles. On the other hand, taxable income is computed in accordance with the Internal Revenue Code and regulations as the basis for imposing taxes.

    Under the tax code, U.S. taxpayers are permitted to adjust their taxable income by allowable deductions, many of which reflect incentives that Congress intended to encourage certain behavior. For example, bonus depreciation is intended to encourage U.S. companies to invest more in capital expenditures, like equipment and fixed assets. Imposing a minimum tax would effectively remove the benefit and undermine the legislative intent of those provisions. Further, it would require companies and the IRS to calculate tax liability under different tax bases, creating significant complexity for taxpayers and the IRS.

    Given the important differences between accounting principles and the deductions permitted by the tax code, do you agree there are legitimate reasons for substantial differences between book income and taxable income and that book income is not an appropriate basis for a new alternative tax regime?

Dr. Yellen did not respond with her views on whether it is appropriate to use book-accounting rules as a basis for a new alternative tax regime. Please provide a direct and substantive response.

> <u>Answer</u>**: I appreciate the potential complexities of using book income to calculate corporate tax burdens, but am also concerned about the zero or very low tax burdens borne by a subset of corporations. Ideally, the U.S. would implement a corporate tax code that limits opportunity for gaming, while also preserving access to tax provisions that encourage productive investment. This is a complex issue requiring further study of concerns related to basing corporate tax burdens on book income, and if confirmed, I hope to work with you and others in Congress, as well as the Treasury staff, on this issue.**

15. Under the Coronavirus Aid, Relief, and Economic Security (CARES) Act, Congress created a temporary rule allowing U.S. businesses to carry back net operating losses (NOLs) incurred in 2018, 2019, and 2020 to the prior five years. In the Health and Economic Recovery Omnibus Emergency Solutions (HEROES) Act, House Democrats proposed to repeal the CARES Act NOL provisions, effectively imposing a retroactive tax increase on businesses experiencing losses as a result of the pandemic. The expected revenue effect of the changes proposed in the HEROES Act was nearly $250 billion. Do you support this kind of retroactive tax change that would significantly increase taxes on businesses experiencing losses? Do you agree with former President Obama's sound advice when he said during the aftermath of the financial crisis, "The last thing you want to do is raise taxes in the middle of a recession"?

Dr. Yellen did not express support or opposition to introducing a retroactive tax increase during the pandemic on businesses experiencing losses. Please provide a direct and substantive response.

> <u>Answer</u>**: President Biden has released his proposal for an American Rescue Plan that would form the basis of a new COVID relief package. As you know, that proposal did not include repealing the CARES Act NOL provisions. As the process of finalizing the package and advancing legislation moves to the next phase, I anticipate that I would be better positioned to evaluate and weigh in on a wide range of proposals and, if confirmed, would be better able to do so with the benefit of the expertise of the Treasury Department. I would also welcome the views of members of this Committee and others in Congress as we consider what provisions to include in any final relief package.**

18. Pillar 2 of the OECD's proposed "unified approach" would effectively create a global minimum tax. The Treasury Department to date has made it a priority that the U.S. global intangible low-taxed income (or GILTI) tax regime would be treated as a "deemed compliant" regime under any multilateral agreement. Do you plan to continue to advocate for GILTI to be treated as a deemed-compliant regime under Pillar 2?

Dr. Yellen did not answer whether the Treasury Department would continue to advocate for GILTI to be treated as a deemed-compliant regime under Pillar 2. Please provide a direct and substantive response.

> <u>Answer</u>**: President Biden has proposed substantially reforming GILTI as part of his plan to ensure a fair and progressive tax code where wealthy individuals and corporations pay their fair share. If confirmed, I look forward to learning more from Treasury Department staff about the status of these negotiations and how they relate to other diplomatic efforts. As part of that process, I will consult with the staff about the extent to which such positions are appropriate, including whether it would be appropriate to treat the current US GILTI regime as a "deemed compliant" regime.**

19. As part of the proposed Pillar 2 approach, the OECD has proposed an "undertaxed payment rule" that would complement the global minimum tax. The undertaxed payment rule effectively would tax a business on a payment made if the recipient business is not subject to a certain level of tax with respect to the payment. U.S. businesses have voiced concerns that payments received by a U.S. company from a foreign affiliate could be subject to the undertaxed payment rule if the payment receives preferential treatment under the foreign derived intangible income (FDII) regime or through the application of another preferential rate or credit regime. Will you advocate to preserve the application of U.S. tax law, including FDII and other preferential rates and credits, if Pillar 2 includes an undertaxed payment rule?

Dr. Yellen did not answer whether the Treasury Department would advocate to preserve the application of U.S. tax law, including FDII and other rates and credits, under Pillar 2. Please provide a direct and substantive response.

> <u>Answer</u>**: If confirmed, I look forward to learning more from Treasury Department staff about the status of these negotiations and how they relate to other diplomatic efforts. As part of that process, I will consult with the staff about the extent to which it would be appropriate to advocate for a multilateral rule specific to the United States FDII regime in the context of a global discussion of a generally applicable undertaxed payments rule.**

22. President Biden has proposed doubling the tax rate on global intangible low-taxed income (GILTI) earned by foreign subsidiaries of U.S. companies from 10.5 percent to 21 percent. The Biden proposal also would eliminate GILTI's exemption for deemed returns under 10 percent of qualified business asset investment (QBAI). While described as a "loophole," QBAI is intended to represent earnings attributable to physical infrastructure in a foreign country. Because GILTI is intended to target intangible income, income attributable to tangible income should not be subject to tax.

    While President Biden has described GILTI as an incentive for U.S. companies to shift operations overseas, before the Tax Cuts and Jobs Act (TCJA), many U.S. companies paid no U.S. tax on their foreign earnings. An increase in the GILTI rate to 21 percent would make U.S. companies far less competitive with their foreign counterparts because most foreign countries do not subject a company's foreign earnings to the same level of tax as domestic earnings. Coupled with the elimination of QBAI, raising the rate to 21 percent would actually incentivize U.S. companies to invert or be acquired by foreign companies, particularly given that the OECD is currently considering a global minimum tax around 13 percent.

    What is your view on the United States imposing a 21-percent tax on foreign earnings if the OECD is planning to implement a global minimum tax at or around 13 percent? Wouldn't that harm our U.S. companies by making them far less competitive?

Dr. Yellen's response provides that a "global minimum tax agreed to at the OECD could, however, stop the destructive global race to the bottom on corporate taxation and help discourage harmful profit-shifting." If a global minimum tax is agreed to at the OECD at or around 13 percent, would the Treasury Department propose that GILTI apply at the same rate as agreed to at the OECD or continue to pursue the 21-percent rate proposed during the campaign?

<u>Answer</u>**: I appreciate your concern regarding the competitiveness of our U.S. companies amidst a changing international tax landscape. As you note, President Biden has proposed substantially reforming GILTI as part of his plan to ensure a fair and progressive tax code where wealthy individuals and corporations pay their fair share. The U.S. has strong and unique attractions as a residence for multinational corporations and, as a result, U.S. companies would remain competitive even if they faced a somewhat higher 21% rate of tax on their foreign earnings. This is even more true if a global minimum tax were agreed to at the OECD.**

23. President Biden's "Made in America" proposal includes a 10-percent penalty on goods and services imported by U.S. companies from foreign affiliates. This policy would only penalize U.S. companies, putting them at a competitive disadvantage with similarly situated foreign companies. It also ignores the reality of global supply chains. If our country penalizes imports from foreign countries, couldn't this policy encourage foreign countries to tax goods or services imported from the United States?

Dr. Yellen's response does not answer the question of whether this policy could encourage foreign countries to tax goods or services imported from the U.S. subsidiary of a foreign company. Please provide a direct and substantive response.

<u>Answer</u>: **Anticipating the response of other countries to a tax change passed in the United States is difficult, and relies on a variety of specific factors concerning the nature of the change and the foreign country in question. While I would -- if confirmed -- welcome the opportunity to further explore this question with you with more specificity, President Biden's proposal would support American businesses and workers.**

30. I have been a strong proponent of the bipartisan IRS private debt collection program, along with Senator Schumer. In 2015, Congress updated and made mandatory the IRS private debt collection program. This program is designed to chip away at the tax gap by requiring the IRS to contract with private debt collectors to collect inactive tax debt due but unpaid. These are the tax debts not being worked by the IRS and, absent this program, would likely never be collected. The program has proven its ability to collect hundreds of millions of dollars in otherwise uncollectible tax debts on an annual basis, including generating nearly half a billion dollars in net revenue in fiscal year 2020 alone. At the same time, it has generated additional resources for the IRS that have enabled the IRS to hire 400 compliance personnel and collect millions more in additional revenue. As Treasury Secretary, can you assure me that the Treasury Department will continue to operate the program to the full extent authorized under the law, including by ensuring that all inactive debts as defined by the statute are provided to the collection companies in a timely fashion?

Dr. Yellen indicated that she would work with the IRS to "make sure taxes are collected in an efficient and effective manner," but did not address whether the Treasury Department, under her leadership, would faithfully operate the private debt collection program as required by law.

> **Answer: I look forward to working with Treasury, if confirmed, to ensure that the private-public partnership makes the tax system better for taxpayers while strengthening the IRS.**

37. In a 2012 paper titled "Behaviorally Informed Regulation," authors Michael S. Barr, Sendhil Mullainathat, and Eldar Shfir proposed, among other things, a scheme in which credit-card issuing firms could charge late fees that "they deemed appropriate, but the bulk of such fees would be placed in a public trust to be used for financial education and assistance to troubled borrowers." Firms could keep a share of the fees, but "the bulk" of the fees would effectively be nationalized and presumably controlled by the federal government's behaviorists. Do you support such a scheme of effectively nationalizing late fees on things like credit cards?

Dr. Yellen did not answer whether she supports such a scheme.

> **Answer: I look forward to studying the specific reform proposal raised in the paper and referenced in the question. If I am confirmed, I am committed to working with you to address the issues of insufficient financial literacy, reasonable access to credit, and a well functioning and competitive financial system raised by the paper. I look forward to working with Congress to ensure that consumers everywhere are informed and safe in the financial marketplace.**

42. You have mentioned "stranded assets" several times during your confirmation process as a risk from climate change that you seem to believe could become some sort of aspect of a risk to financial stability.
    a. Is the anticipated shut-down of the Keystone XL project by the incoming administration an example of stranded assets, where investments have been made and the federal government intervenes to strand them and make them worthless?
    b. Is one of the largest risks to realizing large amounts of stranded assets a risk that the federal government will take unanticipated (when the investments were made) actions to make such assets essentially worthless, because of actions by the federal government intended to shut down production in sectors such as coal or other "fossil fuels?"

Dr. Yellen did not identify whether she believes shut-down of Keystone XL is an example of a stranded asset. Dr. Yellen simply says that transition from fossil fuels and other energy sources to renewable energy sources is not a decision or choice. She did not comment substantively on whether shutdowns of energy-source sectors stemming from government regulation or other actions present a risk of a large amount of stranded assets being realized.

Answer:

a) **As you know, President Biden revoked the permit for the Keystone XL Pipeline. That decision was consistent with the finding of the State Department -- after exhaustive review -- that the pipeline's significance for energy security and economy is limited. The revocation for the permit for the Keystone XL Pipeline may negatively impact some investors in the project, however, the continued development of the pipeline would have created environmental risks.**

b) **I am committed to taking steps to better understand the physical and transition risks of climate change to our economy, if confirmed. President Biden has put forth a vision for investing in a clean energy economy that would recognize both the costs and risks of climate change on the economy, and the opportunities to create new, good-paying jobs.**

43. Do you intend to resurrect the Obama administrations failed and ill-designed myRA retirement savings scheme, partly by misusing the permanent, indefinite appropriation provided to Treasury for compensating financial agents?

Dr. Yellen did not identify whether she intends to resurrect myRA, which would entail use of a permanent, indefinite appropriation for financial agents.

Answer: I am very concerned about retirement adequacy in the United States, and am committed to identifying innovative, effective, and cost-efficient strategies for improving the financial well-being of American households. I am aware of the goals of the MyRA program, and some of the concerns surrounding the initiative's administration. If confirmed, I look forward to consulting with Treasury staff on the MyRA program and partnering with you and others in Congress to improve our country's retirement adequacy.

46. In a June 7, 2016 article in the Huffington Post titled "The Koch Brothers are Trying to Handpick Government Officials. We Have to Stop Them.", Senators Warren, Schumer, and Whitehouse put forward allegations, that have subsequently been shown to be false, against a Republican nominee for a Social Security Trustee position and a Republican nominee to a seat on the SEC. The authors identified that the two nominees had worked at a think tank that received financial support from the "Koch brothers." The nominees, and officials at the think tank identified that their research was not guided or constrained by any institutional donors, though the authors seemed unconvinced, calling directly into question the integrity of the nominees.

    Given the sensitivity of some to institutional funding, especially if funding is provided to institutions that include conservative scholars, and given that the Charles Koch Foundation provided substantial funding to the Brookings Institution when you worked there, as did many "wealthy corporations" and billionaires:

    a. Should there be concern that you, in your position as Treasury Secretary, if confirmed, will, as the authors of the article referenced above warn, "serve the wishes of wealthy corporations and their billionaire owners"?

    b. Should concerns about think-tank funders be limited to think tanks that allow scholars to pursue conservative thoughts?

    c. Should there be a double standard with respect to who is and who is not suspected of being influenced by corporations and "billionaires" depending on their political positions?

Dr. Yellen did not respond to parts b and c. Please provide direct and substantive responses to parts b and c.

<u>**Answer:**</u>

b) I am not directly familiar with the circumstances under consideration in this question. Therefore, I do not think I am in a position to answer concerning the fairness of the relevant critiques. As a general matter, I have valued insight and discussion with scholars and colleagues that have varied viewpoints from my own.

c) I am not directly familiar with the circumstances under consideration in this question. Therefore, I do not think I am in a position to answer concerning the fairness of the relevant critiques.

49. Social Security benefits are said to be "earned benefits," in that for every dollar of FICA tax paid in for disability or retirement benefits, there is a commensurate benefit that accrues to the taxpayer. An old Franklin Roosevelt quote is often invoked to reinforce the earned-benefit notion; in 1941, Roosevelt stated that "We put those payroll contributions there so as to give the contributors a legal, moral, and political right to collect their pensions and their unemployment benefits. With those taxes in there, no damn politician can ever scrap my social security program." To some, it is important that Social Security programs remain as ones that can be characterized as earned benefits, meaning, again, that there is a benefit commensurate with every unit of tax paid in. Otherwise, some fear, dependence of Social Security benefits on partial general-fund revenue, or revenue cloaked as Trust Fund revenue but accruing to the Trust Funds as tax payments that do not carry any associated benefit accrual, would lead to Social Security being characterized as some sort of "welfare," and benefits being thought of as mere transfers to which recipients do not necessarily have legal, moral, or political "rights."
    a. What, to you, is meant by "earned benefit" in the context of Social Security benefits?
    b. Do you believe it is important to maintain a link between a benefit and a tax, such that for every unit of Social Security taxes paid in there is a commensurate claim to a pecuniary benefit?

Dr. Yellen's response to part a. does not respond, in that it does not identify with any sense of precision what an "earned benefit" means to her in the context of Social Security benefits. Please provide a direct and substantive response to the question.

<u>**Answer**</u>**: I support a benefit formula which is based on contributions, but also acknowledges the gains from a progressive schedule. Social Security's progressive benefit formula is offset, in part, by the regressive payroll tax cap. This long standing balance between linking benefits to contributions, while also maintaining a progressive benefit formula, is one of the many successes of the program.**

53. The so-called Heroes Act (H.R. 6800), which passed in the House of Representatives in May, 2020, directs the Federal Reserve, in Sec. 110801, in unusual and exigent circumstances, to purchase obligations issued by any State, county, district, political subdivision, municipality, or entity that is a combination of any of the several States, the District of Columbia, or any of the territories and possessions of the U.S. Such purchases would occur within proposed modifications to the Municipal Liquidity Facility that was established under section 13(3) of the Federal Reserve Act, and the modifications would have to be made to, among other things, "ensure that any purchases made are at an interest rate equal to the discount window primary credit interest rate…commonly referred to as…the 'Federal funds rate'"; and, to "ensure that an eligible issuer does not need to attest to an inability to secure credit elsewhere." Given that the Federal funds rate is near-zero, Sec. 110801 in effect requires that the Federal Reserve make near-zero-interest rate loans to states, municipalities, and the like, independent of whether

those jurisdictions are able to secure credit elsewhere—something that turns the Federal Reserve into an agency providing assistance that is close to grant making.

a. Do you support the policies called for in Sec. 110801?
b. More generally, do you support requiring that the Federal Reserve make loans to potentially non-creditworthy borrowers at the Federal funds rate?
c. More generally, do you support allowing the Federal Reserve to make grants to private or governmental entities?

Dr. Yellen's response is, at best, tangential to the specifics asked in a, b, and c. Please provide direct and substantive responses to the questions asked in a, b, and c.

Answer:

a) I have not fully studied the specific language or the policy implications of the text contained in Section 110801 of H.R. 6800.

b) Without specific context for the economic circumstances and the underlying position of the borrower, it would be inappropriate for me to suggest whether lending by the Federal Reserve would be appropriate or not.

c) The Federal Reserve's ability to extend assistance to private or government entities and the terms of such assistance is bound by the Fed's legal authority as provided by Congress, and the authorities laid out in the law will be the basis for whether providing such support is allowed.

54. You seem to oppose rule-based monetary policy, and instead prefer discretion. Do you symmetrically *not* support rules-based economic stabilizers, such as unemployment insurance tied formulaically to economic measures, and instead prefer fiscal-policy discretion that is consistent with a continuing role for Congress and representative democracy?

Dr. Yellen's response provides her policy preferences, but does not provide a direct and substantive response to the question posed above. Please provide a direct and substantive response to the question posed.

<u>**Answer**</u>**: I support both automatic stabilizers and discretionary fiscal policy. Automatic stabilizers help to ensure that assistance is provided as long as it is needed and is phased out when it is no longer required, improving the predictability of policy. But there is also an important discretionary role for Congress to provide fiscal support suited to unique circumstances, such as those currently resulting from the pandemic. I believe there are circumstances when automatic stabilizers are not only appropriate, but can be expanded and improved (including an examination of the proper role of tying stabilizers to economic trends), but discretionary fiscal policy can -- and should -- play a critical role in any relief effort as well. With respect to monetary policy, I believe that both rules and discretion play valuable roles. The Federal Open Market Committee regularly examines the prescriptions of a variety of monetary policy rules. And it has publicized those recommendations in its Monetary Policy Report to Congress. Nevertheless, the Committee retains discretion needed to respond as deemed appropriate to the often unique circumstances prevailing at a particular time.**

66. The incoming administration desires to reset the federal minimum wage to $15, despite warnings from the Congressional Budget Office that such a move could cost upwards of 3.7 million workers a job. Of course, given variations in the cost of living across the country, $15 for a worker in, say, New York City or Berkeley, California, is far different that for a worker in, say, West Virginia. And paying $15 an hour as an employer in Iowa is different, in terms of production costs, than in states with higher overall living costs. A $15 minimum hourly wage is only a bit below the May, 2019 median hourly wage for all occupations for West Virginia.
    a. Do you agree with the 2019 analysis from the Congressional Budget Office that increasing the minimum wage, depending on how the increase is implemented, will result in 1.3 million workers becoming jobless, and there is a two-thirds chance that the change in employment could be a decrease of up to 3.7 million workers?
    b. Do you believe that many low-wage workers will become displaced by technology if a $15 minimum wage is enacted?
    c. Do you believe there are negative employment effects of increasing the minimum wage at both the extensive and the intensive margin?

d. What economic literature do you rely on to make your assessments regarding effects of an increase in the minimum wage to $15, which is well outside the size of an increase that could be comfortably thought of as being within the relevant range of applicability of existing studies?
e. Would you support implementation of indexation such that an increase in the federal minimum wage to $x per hour is implemented, but with $x per hour applying to any states with price levels equal to the national median and the minimum wage in other states or municipalities indexed to state or municipal living costs using the Bureau of Economic Analysis's Regional Price Parities (RPPs) measure?

Dr. Yellen did not directly and substantively respond to a, b, c, d, or e. Please provide direct responses to the questions posed above.

Answer:

a) President Biden has proposed raising the minimum wage to $15 as part of his American Rescue Plan. Doing so would benefit millions of workers -- including many essential workers -- who have struggled disproportionately during this K-shaped recovery. As a result of a minimum wage that has not been increased in 12 years, the inflation-adjusted minimum wage has fallen by nearly one-fifth. Raising the minimum wage to $15 would boost consumer spending power by low-wage workers, raise retention rates, and boost productivity -- all of which would benefit workers and the economy at large. Moreover, the President's proposed agenda takes into account the interests of small business owners and pairs the minimum wage increase with immediate relief to small businesses as part of the crisis rescue package, as well as additional measures he will propose to build a stronger economy over the longer run.

b) I believe that the President's plan to pass a $15 minimum wage would benefit both low-wage workers and the economy at large. Past increases in minimum wage levels, at both the federal and state level, have not resulted in sizable displacements from technology.

c) As I stated in my testimony, there is a robust economics literature on the minimum wage, and my read of the findings of much of this literature is that the likely impact on employment is minimal, including at both the extensive and intensive margin.

d) I believe that it is important that all policy choices, including the minimum wage, consider any and all costs and benefits. The minimum wage has been carefully studied over many decades and the findings show that historically the benefits from raising the minimum wage have been far larger than any costs. Indeed, a number of well-regarded studies that I am familiar with, including a series of studies by economists Arin Dube and Michael Reich, have found no materially negative effects on unemployment.

e) President Biden has proposed a $15 nation-wide minimum wage, and I believe that approach would greatly benefit struggling workers and strengthen the economy.

67. Recent reports indicate that unemployment insurance fraud in California alone may total $8 to $10 billion. Fraud takes resources away from those to whom the federal government intends to help and places them in the hands of undeserving fraudsters, some of whom seem to recently have been parts of organized crime rings, perhaps with international scope. I've already asked the Department of Labor to investigate California's unemployment insurance system, since the Governor of the state does not seem very interested in being serious about reining in fraud. And, in the relief package that was enacted just a few weeks ago, I argued for strengthened anti-fraud protections, while Democrats did not want many—if any—protections, partly based on a notion that fraud detection could involve use of racial- or income-biased risk-based fraud-detection systems.
    a. Do you believe, with billions of dollars of fraud in the unemployment insurance system, additional fraud detection is important?
    b. Do you believe that it is possible to enact legislation calling for systems of risk-based fraud detection without the result being use of systems or algorithms that have racial- or income-based biases?

Dr. Yellen did not provide a direct response to part b. Please provide a direct and substantive response.

<u>Answer:</u> **I have not had the opportunity to explore the impacts of risk-based fraud detection systems and whether they create racial- or income-based inequities. Although the Unemployment Insurance system is administered by the Department of Labor, I would be happy to further discuss the broader issue with you, if confirmed.**

74. Given what I expect will be proper efforts on your part to examine diversity at the Treasury Department, your views on diversity will impact your decision making. With respect to a recent lawsuit alleging that Harvard University's admissions processes discriminate against Asians:
    a. Why did you join an amicus brief to seemingly reinforce your view that statistical procedures and arguments used by your Berkeley colleague Professor David Card were more carefully executed than procedures and arguments used by the opposing side?
    b. Do you believe, given arguments and analyses that you have seen related to the case, that Harvard admissions do not discriminate against Asians?
    c. Using data from a lawsuit against Harvard, an April 2020 National Bureau of Economic Research paper (Working Pater 27068) by Arcidiacono, Kinsler, and Ransom identifies that they "show that there is a substantial penalty against Asian Americans in admissions with limited scope for omitted variables to overturn the results." Do you find the results of that paper to be relevant to your views expressed

in the amicus brief that you joined, and do the results weigh on your views of whether or not Harvard has discriminated against Asians through its admissions processes?

Dr. Yellen did not respond to part c. Please provide a direct and substantive response.

<u>Answer</u>**: I signed the amicus brief because I was persuaded by the argument that Professor Card made and the strength of his empirical work.**

I have a long record throughout my career of drawing attention to issues of income inequality and racial equity, including my efforts as Chair of the Federal Reserve, and the work that I've continued to do since, to draw attention to the need to diversify the field of economics. I am committed to leveraging the full powers and authorities of the Treasury Department to address issues of inequality as well as diversity, equity and inclusion.

<u>**Senator Portman**</u>

Follow-up to Question 2

President Biden has proposed raising the corporate tax rate from 21 percent to 28 percent and doubling the tax rate on GILTI from 10.5 percent to 21 percent. Moreover, the OECD is currently considering a global minimum tax rate of 12.5 percent. An increase in the GILTI rate to 21 percent would subject U.S. companies to significantly higher levels of tax than their foreign competitors, resulting in more profitable business opportunities for foreign companies and return to the inversion of U.S. companies or acquisition by foreign companies, resulting in a loss of US jobs and investment.

What is your view on the United States imposing a 21 percent tax on foreign earnings of US companies, and how do you see that as being competitive if the OECD is planning to implement a much lower global minimum tax at or around 12.5 percent?

If the OECD agrees on a global minimum tax rate at or around 12.5 percent, would you propose increasing the rate on foreign earnings from its current rate of 10.5 percent? Additionally, please explain your response that any gap between the US minimum tax rate and a globally-agreed rate would likely be smaller than the gap that exists today. The rate currently being considered at the OECD is at or around 12.5 percent and the current GILTI rate is 10.5 percent, a difference of 2 percent. If the GILTI rate is increased to 21 percent, there would likely be a much larger gap between the GILTI rate and the OECD rate (assuming the rate is at or around 12.5 percent).

<u>Answer</u>**: I appreciate your concern regarding the competitiveness of U.S. companies amidst a changing international tax landscape. As you note, President Biden has proposed substantially reforming GILTI as part of his plan to ensure a fair and progressive tax code where wealthy individuals and corporations pay their fair share. The U.S. has strong and unique attractions as a residence for multinational corporations, and, as a result, U.S. companies would remain competitive even if they faced a somewhat higher 21% rate of tax on their foreign earnings irrespective of the outcome of the OECD negotiations. This is even more true if a global minimum tax were agreed to at the OECD. Such a global minimum tax could stop the destructive global race to the bottom on corporate taxation and help discourage harmful profit-shifting.**

Regarding the current gap, I was referring to the gap between the GILTI rate and the minimum tax rate on the foreign earnings of foreign-resident multinationals under current law. Today, most other headquarters' jurisdictions impose no tax on the foreign earnings of their domestically-headquartered multinationals.

Follow-up to Question 23

Following the Obama Administration's adoption of the Joint Comprehensive Plan of Action (JCPOA) with Iran, the Treasury Department granted Iran a specific license to access the U.S. financial system.

Should the Biden Administration re-engage in negotiations with Iran regarding nuclear capabilities, would you also consider granting Iran a specific or general license to access the U.S. financial system?

Answer: The Biden-Harris Administration is committed to ensuring that Iran takes the appropriate steps to resume compliance with its nuclear commitments. We will carefully review what sanctions relief would be appropriate, if Iran complies -- and Iran will only enjoy sanctions relief under the JCPOA if it complies with its nuclear constraints. As circumstances unfold and these reviews are conducted, I will commit to following up with Congressional offices with more specificity.

Should the Biden Administration re-engage in negotiations with Iran regarding nuclear capabilities, would you consider granting Iran a specific or general license to access the U.S. financial system? Please state either yes or no.

Answer: Yes, if the Biden-Harris Administration reenters the Iran nuclear deal, we would consider what sanctions relief would be appropriate. However, Iran will only enjoy sanctions relief under the JCPOA if it complies with its nuclear constraints. I fully appreciate the need to communicate with Congress on our Iran sanctions, and will plan to do that, if confirmed.