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Congress of the United States
Joint Economic Committee
Democrats

109TH
CONGRESS

804 HART SENATE OFFICE
BUILDING
WASHINGTON, DC 20510-6602
202-224-0372
FAX 202-224-5568
www.jec.senate.gov/democrats

CHAD STONE
STAFF DIRECTOR

Opening Statement
Senator Jack Reed
Joint Economic Committee Hearing
April 27, 2006

Thank you, Chairman Saxton. I want to welcome Chairman Bernanke and thank him for testifying here today.

All eyes are on you, Chairman Bernanke, as you embark on a tricky high-wire act in which you allow the economy to grow and employment to reach its full potential, while you remain mindful of the risks of inflation. For some time, the Fed's job had been easier – it had room to raise interest rates from very low levels with little risk of derailing the economic recovery, while inflation and other lurking economic problems were at bay. Today, soaring energy prices, record budget and trade deficits, a negative household saving rate, and a disappointing labor market recovery all pose tremendous challenges to setting monetary policy.

The Fed has raised its target for the federal funds rate by 25 basis points at each of the last 15 FOMC meetings. According to the minutes of the March meeting, most members of the FOMC thought that the end of the tightening process was near. The question on everyone's mind is: are we there yet? The phrase we are hearing is that interest rate changes will now be "data driven." So I hope that means, Chairman Bernanke, that the Fed will look hard at the full range of data on economic growth, employment, and inflation to determine the best course for monetary policy.

GDP is growing, but the typical American worker has been left out of the economic gains of this recovery. Strong productivity growth has shown up in the bottom lines of shareholders but not in the paychecks of workers. Too many Americans are being squeezed by stagnant incomes and rising costs for gasoline, health care, and education. It seems to me that there is still room for real wages to catch up with productivity before the Fed needs to worry about inflationary pressures from the labor market.

However, there are many other downside risks to the economy on the horizon. Energy prices have been pushing up overall inflation for some time. But last month, we saw an uptick in core inflation, which might be an early sign that businesses are starting to pass on their higher energy costs to customers. Rising oil prices and interest rates coupled with a weakening housing sector could take their toll on consumers and businesses alike and slow down the economy too much.

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Your task in setting the right course for monetary policy is complicated by fiscal policy and international imbalances. We no longer have the fiscal discipline that we had in the 1990s, which allowed for a monetary policy that encouraged investment and long-term growth. The President's large and persistent budget deficits have led to an ever-widening trade deficit that forces us to borrow vast amounts from abroad and puts us at risk of a major financial collapse if foreign lenders suddenly stop accepting our IOU's.

Even assuming we can avoid an international financial crisis, continued budget and trade deficits will be a drag on the growth of our standard of living and leave us ill-prepared to deal with the effects of the retirement of the baby-boom generation. Strong investment financed by our own national saving—not foreign borrowing—is the foundation for strong and sustained economic growth and rising living standards

One final issue that I would like to raise is the growing inequality of income, earnings, and wealth in the U.S. economy. Your predecessor, Chairman Greenspan, regularly raised that issue as one of concern for our political economy—it is not good for democracy to have widening inequality. I know you share these concerns. Recently, the Federal Reserve published the results from the 2004 Survey of Consumer Finances. They show that growth in median income and wealth have slowed substantially and the top 1 percent of families hold more wealth than the bottom 90 percent of families.

In this environment, it is hard to understand why the Administration is continuing to pursue policies that add to the budget deficit by providing tax breaks to those who are already well-off, including the permanent elimination of the estate tax. Meanwhile, they continue to propose budgets that cut programs for those who are struggling to make ends meet. Mr. Chairman, I know you don't want to get into the specifics of particular policies, but I hope you can offer us some insights about the kinds of policies that are likely to be effective in addressing the real challenges we face in this economy and offering real opportunities for growth that provides widespread benefits to the American people.

I look forward to your testimony on the economic outlook and to a discussion of these issues.

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