



JOINT ECONOMIC COMMITTEE  
SENATOR CHARLES E. SCHUMER  
CHAIRMAN



## JOINT ECONOMIC COMMITTEE HEARING: “THE ECONOMIC OUTLOOK”

*Federal Reserve Chairman Ben Bernanke Testifies*

**Opening Statement**  
**Sen. Charles E. Schumer, Chairman**  
**November 8, 2007**

I want to welcome Federal Reserve Chairman Ben Bernanke to this hearing of the Joint Economic Committee on “The Economic Outlook.” This Committee has a broad mandate to study and make recommendations about economic policy, and we’re always pleased when the Federal Reserve Chairman comes to share his views on that state of our economy.

Chairman Bernanke, when you came before this Committee last March, one of the major topics we discussed was the potential fallout from the subprime lending crisis. It’s something this committee has been very concerned with for quite some time. And I think you’d be the first to admit that, contrary to what you said at the time, the subprime mess has not been “contained”, but instead has proved to be contagion that has spread in dangerous ways throughout not just the housing market, but our economy, and the global financial system.

The seizing up of the credit markets this summer was the first, and clearest indication of the unanticipated, and potentially disastrous, risks that out-of-control subprime lending poses to the financial markets. There is now a lack of confidence in creditworthiness throughout the market, and at the core of is a lack of confidence in the subprime mortgage market. Until we correct that, we will not solve our broader problems.

I do want to applaud you and the Federal Reserve Board for your aggressive, and I believe appropriate, response to this summer’s liquidity crisis. It is vital that we maintain the health of our financial markets, and to ensure that they function smoothly, and you deserve credit for your prompt actions

However, while we did weather that summer storm, **I’m very concerned that there may be a bigger storm on the horizon. Quite frankly, I think we are facing what are essentially the four horsemen of economic crisis: falling housing prices, lack of confidence in creditworthiness, the weak dollar and high oil prices.** Each of these problems alone would be enough of a threat to our economic well-being, but taken together, they present real dangers.

First, as we have warned, and as you acknowledge in your testimony, we face a wave of foreclosures in the next years that threaten millions of American homeowners and their neighbors. The housing boom has busted, and we may see trillions of dollars in lost home values across the nation. Second, the credit markets remain in crisis. Third, the dollar has dropped dramatically against most of the other major currencies of the world, and seems to hit lows not seen in decades nearly every day. And finally, oil prices keep reaching near record highs, driving up energy costs in all sectors of the economy.

Even our bedrock assumptions are being put into doubt. As housing prices decline, there are real fears that we won't be able to depend on consumers, the engine of our economy over the past few years, to keep spending. And now we hear that foreign investors may no longer be confident in the dollar as the global currency of choice. I'm not surprised to hear experts, such as your predecessor Alan Greenspan, warn about the threat of recession. I've begun to worry about it too.

In particular, as I watch bank after bank write down bad investments tied to baroque financial instruments that even sophisticated investors don't understand, I fear for the stability of our financial system. I've talked about the wild wild west of subprime mortgage brokers. I'm beginning to wonder whether we have a wild wild west of unregulated financial instruments, of SIVs, and mis-rated CDOs, and other complicated investments whose values are not marked to market, or even marked to model, but to quote one Wall Street strategist, are "marked-to-make-believe." **To paraphrase you, Mr. Chairman, the markets too want to know how much these damn things are worth, and I want to know what all of us – the Federal Reserve, Congress, and this administration - can do to help assuage their fears.**

I'm very concerned, Mr. Chairman, that none of the regulators, including the Federal Reserve, are acting quickly or boldly enough to deal with the risks we're facing. A laissez faire hands off attitude might be appropriate if we had any one of these crises alone. But, confronting all of these problems at once should be a call to action because the danger we face is so much greater.

I know that Secretary Paulson has organized a "super conduit" to try to deal with the liquidity crunch faced by SIVs, and the threat they pose to the broader financial markets. To be direct, I'm worried that this just a shell game, an attempt to move bad investments around and keep them from landing back on the books. I'll be curious to hear your opinion today, Mr. Chairman, about the secretary's plan, as well as your views about the risks these complex and opaque pools of capital now present to our financial system, and how you intend to deal with this crisis. If you feel that you don't have the tools at your disposal to address these problems, then I hope you'll share with us your views on what we in Congress ought to do.

I am glad to see that so much of your statement is given over to the importance of helping distressed subprime borrowers. You mention some of the efforts my colleagues and I have made, and I won't spend more time on that right now. But I will say that it would be nice if the Administration would join us in our attempts to protect American families from the fallout of the subprime lending disaster. The policy responses from the administration have not come close to matching the magnitude of the crisis. There is a lack of confidence that anyone is in charge. Mr. Chairman, if you feel that in your position you cannot speak publicly about the changes that are

needed, then I urge you to speak privately to members of the administration. Use your position to jawbone them into action. Your predecessor was not shy about putting his prestige and credibility to work behind the scenes, and I encourage you to do the same.

One of the great legacies of the American economy has been its ability to make everyone better off. Throughout most of our history, when our economic pie has gotten bigger, everyone has shared. But over the seven years of the Bush administration, that has not been the case. Even in the recovery of the last few years, the benefits have gone mainly to those at the top. Now, as we face an economic slowdown or worse, I am very worried that it is those Americans who haven't shared in our recent growth who will bear the brunt of economic decline, and that the policies of this administration will only further exacerbate their difficulties.

I do not pretend that there are easy solutions to troubling challenges facing our economy. But we cannot shy away from these challenges. I look forward to your testimony on the economic outlook and to an interesting discussion of how we can best meet these and the other economic challenges we face.

Normally I encourage all of our members to make opening statements. But because we only have a limited time with Chairman Bernanke, I am going to ask only our Vice Chairman and the Senate and House Ranking members to make opening remarks. Other members may submit their full opening statements into the record.

Now I go the committee's ranking Republican, my colleague on the House side, Congressman Saxton, for his statement.

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