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COMMITTEE ON FINANCIAL SERVICES

HEARING TO RECEIVE TESTIMONY of CHAIRMAN, BEN BERNANKE,

OF THE FEDERAL RESERVE BOARD OF GOVERNORS

WEDNESDAY, JULY 18, 2007

Good morning. Ladies and gentlemen. I would like to join Chairman Frank and Ranking Member Bachus in welcoming Chairman Ben Bernanke of the Federal Reserve Board of Governors. Mr. Bernanke it has been more than a year since you joined the Fed and your willingness to work closely with the Members of the Committee on Financial Services is appreciated. As you know, I will host you in my

35th Congressional District of CA as soon as our schedules permit.

The Committee held a hearing just yesterday on "Monetary Policy and the State of the U.S. Economy", which I found fascinating because of the discussion I had with you when you appeared before the Committee in February 2007. That is, the issue of income inequality was raised in our witnesses' testimony. You have raised the bar with you outspoken views on this subject. The witnesses testified that there is clearly a link between monetary policy and income inequality, and that the Fed, if it chooses, has the tools to meet the Humphrey-Hawkins goals of combating inflation and achieving full employment.

When you appeared before the Committee in February 2007 to present the Fed's Monetary Policy report to the Committee, you identified three "predominant" issues that you felt could influence the economy—inflation risks, a housing market correction, and oil prices. While there is not been a great deal of volatility in oil prices as some predicted, the U.S housing market has slowed considerably and the subprime crisis has led to bankruptcies among subprime lenders as well as a major default of Bear Stearns' hedge funds. The subprime crisis is far from over with many Adjustable Rate Mortgages (ARMs) scheduled to set this year and next year. I am not sure whether the subprime crisis will cause additional volatility in worldwide financial markets, but on more than one occasion subprime defaults have sent shock waves through these markets, and will likely affect U.S financial markets.

I also noticed just yesterday the Fed has joined other federal regulators and states to conduct targeted consumer protection compliance reviews of selected non-depository lenders with significant subprime mortgage operations, including their associated mortgage brokers. However, this activity will not begin until the fourth quarter of this year.

Chairman Bernanke, you were undoubtedly correct in identifying the issues that would impact the U.S. economy moving forward. And we are now entering what could be the beginning stages of a major slowdown in the U.S. economy because housing is no longer robust, oil prices are likely to increase, and the Fed continues to keep inflation at bay. Something has to give, and maybe it is the end of the ride for this economic growth cycle.

It has been nearly six years since the expansion began in November 2001, and working Americans are still waiting for their share of the incredible wealth being amassed through private equity and hedge funds. According to some reports, “the economy is showing remarkable parallels to the situation of a decade ago.” The first five years of the expansion in the 1990s brought with it record corporate profits, a robust stock market, and increased wealth for the very few. That expansion would ultimately last for ten years. On the other hand wage increases have been flat for the American worker. Monetary policy has contributed to prosperity in the financial markets—private equity and hedge funds have shown incredible growth. So could it be time to alter the course of monetary policy to lead to a rise in wages for the American worker as well as increased employment consistent with the goal of Humphrey-Hawkins.

These trends related to wealth tell us a lot about why there is growing income inequality in the U.S. I am afraid that if the economy turns in the opposite direction from where it has been these last six years, income inequality will increase. As income inequality grows, we will see more people slip into poverty, while unemployment will add to the economic woes of the already strapped American working family. Unfortunately, the U.S. poverty rate already stands at approximately 12.6 percent, representing 37 million people who are counted as poor. In addition, unemployment is extremely high in many communities affected by the loss of manufacturing jobs. Some of the unemployment is intractable, and many of the unemployed will remain unemployed for years rather than for months.

As Chairman now for more than one year, what can you tell us about the role of the Federal Reserve in addressing these problems? Is it just a matter of monetary policy and the need to control inflation, or can the Fed in a meaningful step in to help fix the problems that we are facing in the US -- poverty and income inequality? What will we experience when the expansion ends and growth slows? Once again, I am pleased to be able to hear your views related to the Fed's Semi-Annual Monetary Policy report and our nation's economy, particularly as they relate to the neglected segments of the population --- those living in poverty, the unemployed and underemployed. Thank you.