U.S. House of Representatives
COMMITTEE ON THE BUDGET
John Spratt, Chairman
207 Cannon House Office Building, Washington, DC 20515 (202) 226-7200 ★ www.budget.house.gov

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Federal Reserve Chairman Testifies on Economic Recovery

At a hearing Wednesday convened by House Budget Committee Chairman John Spratt (D-SC), Federal Reserve Chairman Benjamin S. Bernanke testified about the significant difference made by federal responses to the financial turmoil, progress toward economic recovery, and the need to move government back onto a more secure fiscal footing in the future.

Bernanke on federal responses to market turmoil:

Spratt: "Without the extraordinary steps that we've taken, the Fed's taken, the FDIC and the Treasury, without TARP and TALF and the Recovery Act, do you think we would be where we are on the doorsteps of an incipient recovery?"

Bernanke: "No, sir. I'm quite sure we would not be. I recognize that many people have raised concerns about various aspects of policies, financial risks that have been incurred, for example, and those are real and serious concerns. But I do think we need to keep in front of us the fact that without the concerted effort of the Federal Reserve, the Treasury, and other agencies like the FDIC supported by the Congress and the Administration, that last fall we very likely would have had a serious and perhaps global financial meltdown with extraordinarily adverse implications for the U.S. and global economy. I think having averted that and that we now seem to be on a process of slow and gradual repair both of the financial system and of the economy, is a major accomplishment."

"I think dollar for dollar, the infrastructure spending, direct government spending, is probably [the most effective stimulus] – although it takes a longer period of time. The increased transfer payments and tax cuts work more quickly, but because part of them are saved, the impact might be somewhat smaller."

"… I think it's fair to say that the preponderance of the jobs [created by the Recovery Act] would be private sector jobs, and they would be permanent if the economy has, by the end of this period, come closer to a better employment situation, so that we're closer to a more normal labor market situation. So in that respect, you're putting people to work two years earlier than they otherwise would have been put back to work, and that's the sense in which employment is being created."

Bernanke on progress in the economy:

"We continue to expect overall economic activity to bottom out, and then to turn up later this year. Our assessments that consumer spending and housing demand will stabilize and that the pace of inventory liquidation will slow are key building blocks of that forecast. Final demand should also be supported by fiscal and monetary stimulus, and U.S. exports may benefit if recent signs of stabilization in foreign economic activity prove accurate."

"We expect that the recovery will only gradually gain momentum and that economic slack will diminish slowly. In particular, businesses are likely to be cautious about hiring, and the unemployment rate is likely to rise for a time, even after economic growth resumes."

"It is encouraging that the private sector's reliance on the Fed's programs has declined as market stresses have eased, an outcome that was one of our key objectives when we designed our interventions."

Bernanke on the need to get our long-term fiscal house in order:

"Even as we take steps to address the recession and threats to financial stability, maintaining the confidence of the financial markets requires that we, as a nation, begin planning now for the restoration of fiscal balance."