Prepared Statement of Ranking Member Bachus Full Committee Hearing with Fed Chairman Bernanke on Monetary Policy and the State of the Economy

July 16, 2008

Thank you, Chairman Frank, for holding this important hearing, and thanks to Chairman Bernanke for appearing before us today for the second time in less than a week. We welcome you back to the Committee.

Chairman Bernanke, a lot has happened since you were here in February to deliver your last semi-annual report on monetary policy and the state of the economy. In fact, a lot has happened since you appeared with Secretary Paulson just last week, and it is tempting to focus on these recent capital market events. Today, however, I think we should focus on the subject of this hearing which is the state of the real economy underlying the market turmoil.

It seems to me there are several fundamental issues in the economy that need our attention.

First, there is the over extension of mortgage credit and the housing bubble that resulted. There have also been dramatic increases in other forms of consumer debt including credit cards and auto loans. The critical factor enabling all this excessive debt accumulation was the mis-pricing of risk.   The extension of easy credit and the failure to properly underwrite lending has allowed many families to become greatly overextended.

The second factor is the historically high use of leverage and other risky and speculative investment practices. Fortunes were made on the way up and pain will be felt on the way down as we experience the necessary and predictable unwinding and deleveraging.

The third factor is high commodity prices, especially energy prices that have been a particular hardship to importing nations and a financial windfall to exporting nations. Boone Pickens rightly calls this the largest transfer of wealth in history.

Finally, deficit government spending has mirrored the lack of fiscal discipline in personal finances. The Federal government, with more obligations than it can fund, continues to obligate itself by expanding and creating more programs and assuming responsibility or funding for services traditionally the province of local and state government.

Obviously, there is not one single approach we can take to address all of these problems. The re-pricing of risk and deleveraging that we are currently experiencing are part of the natural business cycle. Corrections in these areas will require a retrenchment by market players and will cause disruption and dislocation. Attempts to short circuit that correction will simply prolong the period of adjustment and deepen the damage.

That is not to say that certain techniques cannot be employed effectively to minimize market disruptions and restore a measure of confidence. However, government and ultimately taxpayers should not assume responsibility for losses or indemnify private investors. I am particularly concerned about what appears to be a "privatize the profits, socialize the losses" approach where investors reap market gains and taxpayers are stuck with the losses.

In contrast, high energy prices and excessive government spending are correctable and solvable problems that we can and should address.

What is needed and needed now is a concerted bipartisan effort by the Congress and Administration to develop and implement a comprehensive energy and conservation initiative. This should be coupled with a commitment to live within our means as a government. It has been said, and bears repeating, that if American families have to live within their budget, the Federal government should do so as well.

Of all of the challenges facing our economy - and facing the Federal Reserve as it attempts to achieve it dual mandate of price stability and full employment - none is more serious than the consequences of record-high gas prices. I for one believe that although the credit crunch precipitated the bear market in stocks, it is now high energy prices as much as anything inhibiting a stock market recovery.

When Chairman Bernanke was here in February, the price of crude oil was inching toward $100 a barrel. Since then, it has shot past $130 a barrel. With so much of their take-home pay going to fill their gas tanks, many American have little left over every week to pay for life's other necessities. Moreover, the cost of gas has ratcheted up the prices of other goods because higher gas prices mean higher production and transportation costs, and those increases are passed on to the consumer, causing inflationary pressures to build. Particularly hard-hit are those million and a half families whose subprime loans are scheduled to adjust this year, increasing their monthly mortgage payments by an average of $150 a month. These families face a double whammy of higher housing expenses coupled with sky-high food and gas prices.

Finally, Congress must face up to its responsibility to reduce spending. Today, Mr. Chairman, more and more Americans are having a harder time paying their bills, providing for their families, and saving for retirement. The voters and taxpayers we represent expect us to bring government spending under control just as they are having to do in their family budgeting and spending.

Chairman Bernanke, thank you again for being here today, and for your dedicated and effective public service during these challenging times for our economy. We look forward to hearing your testimony.

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