



Opening Statement of Senator Bob Casey, Chairman of the Joint Economic Committee

“The Economic Outlook with Federal Reserve Chairman Ben Bernanke”

Joint Economic Committee Hearing

Tuesday, October 4, 2011

“I look forward to Chairman’s Bernanke’s report on the state of the economy, his perspective on recent actions taken by the Federal Reserve, and his insights into the short- and long-run challenges facing the U.S. economy.

My hope for today’s hearing is to move beyond the partisan politics and finger pointing that sometimes colors discussions about what the Federal Reserve should or shouldn’t do. Instead, we should focus on the economic challenges facing the country and the potential solutions.

All of us on this Committee share a belief that Congress needs to take action to bolster the economy and help Americans get back to work. Similarly, monetary policy has an important role to play in strengthening our economy.

Millions of Americans are still struggling in the wake of the Great Recession. The economy is not growing fast enough or adding enough jobs to make significant progress reducing unemployment.

- 14 million Americans are unemployed and six million of the jobless (43 percent) have been out of work for six months or more.
- Private-sector job creation, which had been well above 200,000 a month in February, March and April, fell to less than 20,000 in August.
- State and local governments are reeling, as they lay off workers to meet balanced budget requirements. In the past 12 months alone, state and local government payrolls have been slashed by 345,000.
- In Pennsylvania, the unemployment rate, after declining to 7.4 percent in May, has climbed back up to 8.2 percent in August (with more than 516,000 workers unemployed).

Economic indicators have also been weakening abroad. With financial conditions in the Eurozone deteriorating, contagion spreading to other parts of the world is now a significant risk to the global economic outlook.

The Fed has already used a variety of approaches to ease monetary policy. In the current economic environment, we need to use all available tools to support our economy in the short-term. We also need to take the actions that will get our fiscal house in order in the medium and long-term. The two reinforce each other. Getting our economy growing at a healthy pace is critical to sustained deficit reduction.

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As Chairman Bernanke observed in a September speech to the Economic Club of Minnesota: “There is ample room for debate about the appropriate size and role for the government in the longer term, but – in the absence of adequate demand from the private sector – a substantial fiscal consolidation in the shorter term could add to the headwinds facing economic growth and hiring.”

The Federal Reserve Act created the Federal Reserve System and established two objectives for the nation’s monetary policy – maximum employment and stable prices. This is what is commonly referred to as the Fed’s dual mandate.

The Federal Reserve’s recent announcement that it will ease monetary policy further is consistent with that dual mandate. The Federal Open Market Committee said it will purchase \$400 billion of long-term Treasury securities and pay for those securities by selling an equal amount of shorter-term government debt. In the so-called Operation Twist, the Fed is not expanding its portfolio, but shifting its composition so that the average maturity of its holdings is longer.

The goal of the Federal Reserve’s action is to bring down long-term interest rates further – reducing borrowing costs for businesses and consumers, sparking additional economic activity and ultimately boosting employment. The Fed also affirmed that it will continue to pay close attention to inflation and inflation expectations.

Some in Washington have called on the Fed to “resist further extraordinary intervention in the U.S. economy,” arguing that action by the Fed could further harm the U.S. economy. I disagree. With so many Americans out of work and GDP growth having slowed to a less than 1 percent annual rate in the first half of this year, additional actions are needed to strengthen the economy.

Finally, I would like to address currency manipulation, especially on the part of China, because it has such a harmful impact on the U.S. economy and American jobs. A recent report by the Economic Policy Institute finds that the U.S. trade deficit with China – caused in large measure by China’s undervaluation of the yuan – has cost our country 2.8 million jobs over the past decade.

Chairman Bernanke, in testimony before this Committee in April 2010, you noted that “most economists agree the Chinese currency is undervalued and has been used to promote a more export-oriented economy.” You also said that it “would be good for the Chinese to allow more flexibility in their exchange rate” and that “we should continue to press for a more flexible exchange rate.”

I agree. This week, the Senate has the opportunity to take action in response to China’s unfair trade practices when we vote on bipartisan legislation to crack down on China’s currency manipulation. Last night the Senate passed the first procedural hurdle, with a strong bipartisan vote to move forward with debate on the legislation.

To sum up briefly: more than two years after the recovery officially began, our economy remains vulnerable. Unemployment is stuck above 9 percent and long-term unemployment remains at near-record levels. We need to use every weapon in our arsenal to support a stronger economic recovery.

Chairman Bernanke, thank you for your testimony. I look forward to working with you as the committee continues to focus on strengthening the economy, creating jobs, and putting Americans back to work.”