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Statement of Ben S. Bernanke

before the

Committee on Banking, Housing, and Urban Affairs

United States Senate

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Chairman Shelby, Senator Sarbanes, and Members of the Committee, I thank you for the opportunity to appear before you today and for the expeditious scheduling of this hearing. I would also like to express my gratitude to President Bush for nominating me to be a Member and Chairman of the Board of Governors of the Federal Reserve System. If I am confirmed, I will work to the utmost of my abilities to fulfill the important responsibilities of this office.

I recently testified before this Committee in my capacity as Chairman of the President's Council of Economic Advisers. Today, however, I appear before this Committee in a different capacity, as the President's nominee to lead the Federal Reserve System. In this prospective new role, I would bear the critical responsibility of preserving the independent and nonpartisan status of the Federal Reserve--a status that, in my view, is essential to that institution's ability to function effectively and achieve its mandated objectives. I assure this Committee that, if I am confirmed, I will be strictly independent of all political influences and will be guided solely by the Federal Reserve's mandate from Congress and by the public interest.

With respect to monetary policy, I will make continuity with the policies and policy strategies of the Greenspan Fed a top priority. Several aspects of the policy strategy that has evolved under Chairman Greenspan, and Chairman Volcker before him, deserve special note.

First, central bankers in the United States and around the world have come to understand that ensuring long-run price stability is essential for achieving maximum employment and overall economic stability. In recent decades, the variability of output and employment has decreased markedly, and recessions have been less frequent and less severe. I believe that the Federal Reserve's success in reducing and stabilizing inflation and inflation expectations is a major reason for this improved economic performance. If I am confirmed, I am confident that my colleagues on the Federal Open Market Committee (FOMC) and I will maintain the focus on

long-term price stability as monetary policy's greatest contribution to general economic prosperity and maximum employment.

Second, monetary policy at the Fed has been executed with both careful judgment and flexibility. To cite one prominent example, Chairman Greenspan's risk-management policy approach attempts to take into account the possible consequences of not only the most likely forecast outcomes but also of a range of lower-probability outcomes. Implementing this approach requires sophisticated judgments about possible risks to the economy as well as the flexibility to respond quickly to new information or unexpected developments. Risk analysis of this type is a necessary component of successful monetary policymaking. To be sure, the need for flexibility does not imply that good policy is undisciplined, as Chairman Greenspan himself has emphasized. Monetary policy is most effective when it is as coherent, consistent, and predictable as possible, while at all times leaving full scope for flexibility and the use of judgment as conditions may require.

Finally, under Chairman Greenspan, monetary policy has become increasingly transparent to the public and the financial markets, a trend that I strongly support. A more transparent policy process increases democratic accountability, promotes constructive dialogue between policymakers and informed outsiders, reduces uncertainty in financial markets, and helps to anchor the public's expectations of long-run inflation--which, as I have argued already, promotes economic growth and stability.

One possible step toward greater transparency would be for the FOMC to state explicitly the numerical inflation rate or range of inflation rates it considers to be consistent with the goal of long-term price stability, a practice currently employed by many of the world's central banks. I have supported this idea in my academic writings and in speeches as a Board member.

Providing quantitative guidance about the meaning of “long-term price stability” could have several advantages, including further reducing public uncertainty about monetary policy and anchoring long-term inflation expectations even more effectively.

I view the explicit statement of a long-run inflation objective as fully consistent with the Federal Reserve’s current policy approach, including its appropriate emphasis on the role of judgment and flexibility in policymaking. Most important, this step would in no way reduce the importance of maximum employment as a policy goal. Indeed, a key justification for this action is its potential to contribute to stronger and more stable employment growth by further stabilizing inflation and inflation expectations. In any case, I assure this Committee that, if I am confirmed, I will take no precipitate steps in the direction of quantifying the definition of long-run price stability. This matter requires further study at the Federal Reserve as well as extensive discussion and consultation. I would propose further action only if a consensus can be developed that taking such a step would further enhance the ability of the FOMC to satisfy its dual mandate of achieving both stable prices and maximum sustainable employment.

My comments so far today have focused on monetary policy. Of course, the Federal Reserve’s responsibilities extend well beyond this area. Since its founding, the Federal Reserve has been given substantial responsibility for protecting the stability of the nation’s financial system, which is a precondition for stability of the broader economy. For example, the Fed works closely with other regulators to ensure the safety and soundness of the U.S. banking system, and over the years it has played a constructive role in managing and mitigating diverse types of financial crises. If I am confirmed, I will work to enhance the stability of the financial system and to ensure that the resources, procedures, and expertise are in place as needed to respond to any threats to stability that may emerge.

The Federal Reserve, along with other regulators, is also engaged in trying to ensure that consumers are treated fairly in their financial dealings: that their privacy is protected, that they receive clear and understandable information about the terms of financial agreements, and that they are not subject to discriminatory or abusive lending practices. The Fed also enhances consumer welfare through programs to promote financial literacy and community economic development. These are important responsibilities and, if I am confirmed, I will give them my close attention and active support.

I have emphasized this morning the importance of intellectual continuity in policymaking. A more fundamental source of continuity, however, is the superb staff and leadership of the Federal Reserve System. If I am confirmed, I will have the privilege of drawing on the great strengths of this institution to ensure a continuity of the policy process that transcends any single person. I very much look forward to this opportunity.

Let me conclude by offering special thanks to Chairman Greenspan for his collegiality and support when I served on the Board of Governors and for his exemplary leadership of the Federal Reserve System. One may aspire to succeed Chairman Greenspan but it will not be possible to replace him.

Thank you. I would be happy to take your questions.