United States Senate
Committee on Banking, Housing, and Urban Affairs
Christopher J. Dodd (D-CT), Chairman

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Opening Statement of Chairman Christopher J. Dodd
Humphrey Hawkins Testimony with Chairman Ben Bernanke

Remarks as Prepared:

Chairman Bernanke, I welcome you to the Committee to present the Fed's semi-annual monetary policy report to the Congress.

We meet at an important moment, with our nation in the midst of the worst economic crisis in generations.

Since the end of World War II, America's business cycles have oscillated between periods of growth and rising inflation – with the Fed raising interest rates to slow the economy, creating a recession, which then caused inflation to slow. The Fed then typically lowered interest rates, restarting the nation's economy.

While the Fed manages our recessions, our economic recoveries have typically been led by the housing and automobile sectors, which are highly sensitive to interest rates.

In the past, the typical American worker saved during the good times for a rainy day. When recession hit, they may have been laid-off. But once the recession receded, they not only had some savings but also a reasonable chance of getting their job back.

This time, Chairman Bernanke, our housing and auto sectors are leading us not *out* of recession, but into it. This time, our recession is being caused not by rising interest rates, but rather a massive credit crunch resulting from years of reckless lending and—as the Banking Committee has uncovered during some 80 hearings and meetings—regulatory neglect. Such neglect allowed for and even encouraged a problem that began in the subprime mortgage market to spread throughout our nation and the entire global financial system like a cancer.

This time, nearly half the jobs we've lost are not likely to come back, and that's why the American Recovery and Reinvestment Act is so essential.

This time, the American people entered this recession with a negative personal savings rate and a false sense of confidence that we could count on the value of our homes and stocks to go up forever.

In fact, Chairman Bernanke, I read with great sadness that your own boyhood home recently went into foreclosure – most recently owned by a soldier in the South Carolina Army National Guard who reportedly volunteered to go on active duty during wartime to save his home.

Chairman Bernanke, I do not suggest that you are to blame for any of this. I commend the conduct of monetary policy during your tenure. Last year, you began to cut interest rates in the face of opposition from some Regional Bank Presidents at the Fed.

You have followed through on a commitment that you made to me when we met in August 2007 to use all of the tools at your disposal to attack the problems in the global financial market through aggressive and often innovative monetary policy.

You have worked creatively to adapt the Fed to handle the greatest financial market crisis in our lifetimes.

If, as it is said, those who do not study history are doomed to repeat its mistakes, I am relieved we have one of the foremost scholars of the Great Depression at the helm of the Fed.

But for all the success the Fed has had carrying out its core mission—monetary policy—its regulation and consumer protection missions have been abject failures. While many predate your arrival, these failures cannot be ignored.

When I am approached by a constituent in New London who is outraged that some of these banks were allowed to grow into behemoths, and given a clean bill of health, only to turn around months later on the verge of bankruptcy asking for billions of dollars in taxpayer funding, I am reminded of the shortcomings in the Fed's regulation of bank holding companies.

When a family in Bridgeport who has lost everything asks me where the cops on the beat were to stop abusive, predatory mortgages from being written, I am reminded of the Fed's failure to implement the law Congress passed in 1994 to protect consumers and regulate mortgage lending practices.

When I learn a direct marketing business in Greater Hartford has to close its doors, not because they missed a payment to their bank, but because that bank may be having capital problems, I can't help but remember your predecessor's fondness for "regulatory competition" – for actually encouraging bank regulators to compete with one another to see who could provide not the *most* effective regulation of our banks but the least.

As a result, today countless banks are left with dangerously low cash reserves and a massive build-up of leverage, which have created a veritable boomerang of debt that has now snapped back, ensnaring countless honest small businesses in the process.

Finally, when I am asked how our government could have allowed these toxic financial products to proliferate—products that served to dilute the appearance of risk rather than the risk itself—I remember the Federal Reserve's mantra of "financial innovation" and its leaders repeated warnings against any additional government regulation of any kind.

Chairman Bernanke, you have an extraordinarily difficult task ahead of you. You not only have to fulfill the Fed's primary mandate—to conduct monetary policy to create maximum economic growth, full employment and price stability—you do so in the face of an economy in a deep recession, frozen credit markets, and unemployment rising at its fastest pace in a generation – having already cut interest rates to zero.

You do so managing a balance sheet that has spiked to $2 trillion, and now includes the remnants of an investment bank and the control of the world's largest insurance company.

You do so having to conduct monetary policy in ways never before tried to unlock the frozen credit markets.

And you do so with an agency whose structure is virtually unchanged from its creation in 1913, when nearly a third of Americans worked on farms, even as your mission has expanded exponentially – from regulating the smallest banks in the country to the largest bank holding companies; from protecting consumers to being the lender of last resort for any company in the nation.

Chairman Bernanke, I'd say your plate is full. As this Committee works to modernize our nation's financial regulatory structure, the question is whether we should be giving you a bigger plate – or whether we should be putting the Fed on a diet.

I do not question your track record on monetary policy – the Fed's primary goal. But when you keep asking an agency to take on more and more, it becomes less and less likely that agency will succeed at any of it. And at this moment, in my view, nothing will be more important for the Federal Reserve than getting monetary policy right. It is absolutely paramount.

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