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OPENING STATEMENT OF SENATOR RICHARD C. SHELBY
Hearing on the Federal Reserve's Semiannual Monetary Policy Report
July 22, 2009

"Thank you, Mr. Chairman.

"The purpose of today's hearing is to oversee the Federal Open Market Committee's conduct of monetary policy. There is no doubt that we are in a very challenging economic environment. The economy is extremely weak. Bank lending remains sluggish and unemployment is rising rapidly. The unemployment rate stands at a 26-year high and is expected to increase.

"Although the Fed has gone to great lengths to inject liquidity into our economy, its efforts are largely designed to assist banks, especially large money-center financial institutions. Many small businesses, however, are desperately seeking capital from the financial sector and have not been able to secure it. I have heard from a number of Alabama companies that have been virtually abandoned by all of their traditional funding providers. While it is important to bring stability to the financial sector, if the part of our economy most responsible for job creation - small business - cannot obtain funding, such stability will be short lived. Going forward, the measure of success will have to include whether Main Street businesses are retaining or even adding jobs.

"While I understand that the FOMC cannot by itself solve all our economic problems, the effective conduct of monetary policy is a necessary condition for economic recovery. Therefore, today I hope to hear from Chairman Bernanke whether the FOMC will need to take additional steps to help revive our economy. Because interest rates remain at record lows, I am interested to hear what other specific actions the FOMC can and is prepared to take if additional easing is necessary. In addition, I would like to know what Chairman Bernanke believes can be done to spur lending to small and medium businesses.

"While monetary policy is the central focus of this hearing, I believe we must also examine the Fed's performance as a bank regulator as well as its participation in bail-outs

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over the past year. I do not believe that the Board or the regional banks have handled their regulatory responsibilities very well. Many of the large financial companies that have been the focus the Fed's bailout efforts were also subject to the Fed's regulatory oversight. While they were regulated by the Fed, these firms were allowed to take great risks both on and off their balance sheets. When the housing bubble burst, however, those risky positions were exposed and firms had to scramble to shore up their finances and the credit crunch quickly followed.

"I am not aware of any effort on the part of the Fed, prior to the crisis, to question or require such firms to take any actions to address the significant risks they were taking. In fact, the only effort of which I am aware is an effort to modernize bank capital standards. This effort could have resulted in a significant reduction in overall bank capital levels. I wonder where we would be today if the Fed had been able to act on its desire to eliminate the leverage ratio. I cannot imagine a scenario where banks would fare better with less capital during a period of financial stress such as the one we are currently experiencing.

"If the Fed had conducted its regulatory oversight with greater diligence, I do not think the financial crisis would have achieved the depth and scope that it did. In the end, it was the failure of the Fed to adequately supervise our largest financial institutions that required the deployment of its monetary policy resources to stave off financial disaster. In light of the Fed's record of failure as a bank regulator, it should come as no surprise that the Congress is taking a closer look at the Fed and reconsidering its regulatory mandate.

"Thank you, Mr. Chairman."

