

OPENING STATEMENT OF REP. MELVIN WATT

Financial Services Committee Hearing Entitled, “Monetary Policy and the State of the Economy”

Wednesday, February 25, 2009

In ordinary times during my tenure on this Committee, these semi-annual *Humphrey-Hawkins* hearings have focused almost exclusively on the Fed’s use of interest rate changes to impact economic activity, stimulate job creation and control inflation. However, these are not ordinary times and it’s obvious that short-term concerns about inflation have largely given way to some concern about the prospect of deflation and to short, intermediate, even long-term concerns about employment and job growth. The Federal Reserve’s press release of January 28, 2009 following the meeting of the Federal Open Market Committee, stated that the Fed expects that “inflation pressures will remain subdued in the coming quarters,” but that “. . . [i]ndustrial production, housing starts and employment have continued to decline steeply . . .”

The *Humphrey-Hawkins Full Employment and Balanced Growth Act of 1978* mandates the Fed to take steps to achieve maximum employment.

While some economists subscribe to the notion that there is a “natural rate of unemployment” of around 4.5% and it always stunned me to hear former Fed Chairman Greenspan profess that unemployment of less than 5 ½ - 6% would almost surely lead to inflation, I dare say that there are no economists who are not concerned when they see the national unemployment rate meet and exceed the rate that has long been so prevalent in many minority communities. In a February 18th speech at the National Press Club, Chairman Bernanke warned that unemployment will likely exceed 8% and remain that high until possibly 2011 and a number of economists have predicted that unemployment may well reach 10% and continue to climb into double digits.

These are clearly perilous times. It is important to remember that beyond the headlines of mass layoffs and rising unemployment rates, real people are being impacted. The laid-off factor worker in Illinois, the employee at a small technology business in California and the down-sized bank executive in my congressional district in North Carolina are real people with real hopes, dreams and aspirations to provide for their families and contribute to their communities. They can't reach those aspirations without jobs.

Against this backdrop, the sole question I really want addressed today is “what additional tools does the Fed have to stop escalating unemployment and to spur job growth?” In his February 18th speech, Chairman Bernanke vowed to take “strong and aggressive” action to halt the economic slide and improve job growth. Today, I hope to hear specifics on the Fed’s plans and on whether there is anything else Congress can and should be doing to help. I look forward to Chairman Bernanke’s testimony to address these difficult questions.