OPENING STATEMENT
CONGRESSMAN PETER T. KING
before the
HOUSE COMMITTEE ON FINANCIAL SERVICES

Monetary Policy Hearing
July 21, 2004

Thank you, Chairman Oxley.

I too want to welcome back our distinguished witness and good friend, Chairman Alan Greenspan. As always, we appreciate your thorough and insightful report on the state of our economy. I'd also like to congratulate you on your reappointment as Chairman of the Board of Governors for an impressive fifth term. It certainly reflects the confidence many have in your ability to guide our economy through the perils posed by economic uncertainties.

However, it appears the days of stagnant economic growth, hiring freezes, and market uncertainties are behind us. Unemployment appears to be holding steady at 5.6 percent with 1.4 million jobs created over the previous year. Fuel costs, which significantly increased in the spring, have begun to settle. The U.S. dollar exchange rate is stronger, and the housing market remains strong because of the availability of cheap money.

In my home state of New York, the securities industry has reported increases in business activity and stepped up hiring. Moreover, banks are reporting a pickup in commercial loan demand and further declines in delinquency rates.

Recent Congressional Budget Office numbers also show the rate of growth of the federal deficit slowing. This is the result of increased revenue over the last year because businesses are starting to generate profits due to strong consumer demand and availability of disposable household income.

However, with most economic signs pointing toward a sustained recovery, the Federal Reserve finds itself in the position of nurturing this growth without cutting it short due to creeping inflation. Some economists believe the Fed should have been more aggressive in raising interest rates. They argue inflation is starting to show its ugly head, due to a 3.3 percent increase over the last three months, and should be squashed immediately. They also argue this is the result of keeping interests so low for such a long period of time.

Nonetheless, the Fed decided to take an incremental approach toward thwarting inflation and ensuring continued economic growth by increasing the Federal funds rate 25 basis points. Since this is the first rate hike since May 2000, I am interested in why the Fed chose an incremental attack to combat inflation instead of sending a stronger signal with a larger rate increase.

Is the Fed concerned about cheap money leading to a potential housing bubble which could pop if rates are increased too fast? And are you telegraphing many of your actions to soften any interest rate hike impact on the markets? Are there any concerns associated with that approach?

Obviously, the trick is to grow the economy without fueling inflation or causing a sudden shock through the system with exorbitant interest rate hikes. Nonetheless, do you believe the economy can absorb uncertain factors such as a sudden spike in oil prices or a terrorist attack on our financial markets?

I'm encouraged by the economic reports I've seen thus far but, like many of my colleagues, I'm more interested in hearing your thoughts on these matters.

I know Members are eager to begin the hearing, so I'd just like to welcome you again and allow you to proceed with your testimony.

Thank you, Mr. Chairman.