Ben S Bernanke: Remarks

Remarks by Mr Ben S Bernanke, Chairman of the Board of Governors of the Federal Reserve System, at the town hall meeting with soldiers and their families, Fort Bliss, Texas, 10 November 2011.

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It is an honor and a privilege for me to join the men and women of Fort Bliss today. As someone who puts a high value on public service, I want to thank the soldiers here for their service to our country and for helping to make the world a safer place. I admire your professionalism and dedication. I want to thank your family members as well; servicemembers could not achieve what they do without the support and sacrifices of their families. You should all be proud of what you have accomplished and what you stand for.

You may be wondering why the Chairman of the Federal Reserve would travel to Texas to speak at a military base. I meet with groups with a wide range of backgrounds and perspectives on our economy to listen and learn, as well as to explain what the Federal Reserve is doing to try to improve our economic situation. I'm here because the men and women in military service, like all Americans, are profoundly affected by the economic challenges our nation has faced these past several years. Your hometowns may be struggling with foreclosures. You may have had difficulty getting a loan to buy a car or a house. You may have family members who have had trouble finding employment in a tough job market. You may be worried about your own job prospects when the time comes for you to leave the military. So this morning I thought I'd first say a few words about what the Federal Reserve is doing to help strengthen our economy and increase economic opportunity.

I also want to make sure you are aware of some of the special financial protections for people in the military. Just this Tuesday I met with Holly Petraeus, head of the Office of Servicemembers Affairs in the new Consumer Financial Protection Bureau. Ms. Petraeus and I share a common commitment to ensuring that the men and women who protect the security of our country are themselves protected from predatory lending and other abusive financial practices. I will also share a few thoughts about what each of you can do to give yourself the best shot at a promising financial future.

Federal Reserve efforts to improve the economy's performance

At the Federal Reserve, we are working hard – both as central bankers and as financial regulators – to help restore our nation's prosperity. In 2008 and early 2009, the world suffered the worst financial crisis since the Great Depression, a crisis which, had it been left unchecked, would have resulted in a global financial meltdown and an economic collapse. Working with policymakers around the world, the Federal Reserve acted creatively and forcefully to help stabilize the financial system and halt the economic slide. Our economy has been growing and adding jobs for more than two years now. But for a lot of people, I know, it doesn't feel like the recession ever ended. The unemployment rate remains painfully high, and more than two-fifths of the unemployed have been out of work for longer than six months, by far the highest ratio since World War II. These problems are very serious, and we at the Federal Reserve have been focusing intently on supporting job creation. Supporting job creation is half of our marching orders, so to speak; the other half is controlling inflation. Or, in the language of the law that sets the mandate for monetary policy, the Federal Reserve is required to seek both maximum employment and price stability.

We pursue those two important goals by influencing the level of interest rates and other financial conditions. My colleagues and I on the Federal Reserve's monetary policymaking committee equate price stability with inflation being at 2 percent or a little less. That rate is low enough that people and businesses can make financial decisions without having to worry too much about rising costs, but high enough to keep the economy away from deflation – falling wages and prices – which is both a cause and a symptom of an extremely weak economy. Although spikes in oil and food prices, and other transitory factors, pushed inflation up earlier this year, inflation appears to be moderating, and we expect, based on the best information that we have today, that it will remain reasonably close to our objective of 2 percent or a bit less for the foreseeable future.

In the longer term, monetary policy is the main determinant of inflation, and so Federal Reserve policymakers have considerable latitude to choose our longer-term inflation goal. In contrast, "maximum employment" depends on many factors outside of the Federal Reserve's control, such as the skills of the workforce and the pace of technological innovation. Right now, my colleagues on the Fed's policymaking committee estimate that the U.S. economy could sustain an unemployment rate of somewhere between 5 and 6 percent without generating a buildup of inflation pressures. But, regardless of whether the sustainable rate is 5 or 6 percent, with unemployment currently at 9 percent, our economy is certainly falling far short of maximum employment. That high unemployment rate is why the Federal Reserve is focusing its monetary policy at strengthening the recovery and job creation, including keeping short-term interest rates near zero and longer-term rates, such as mortgage rates, at the lowest levels in decades. Keeping borrowing costs very low supports consumer purchases of houses, cars, and other goods and services, as well as business investment in new equipment, software, and facilities. Over time, greater demand on the part of households and businesses leads to increased economic activity and employment.

Like other central banks around the world, one way in which we have put downward pressure on longer-term interest rates is by purchasing high-quality, longer-term securities in the open market – specifically, in our case, U.S. government securities and federally backed mortgage securities. It is important to understand that this type of activity isn't the same as government spending. We will sell the securities back into the market or simply allow them to mature as part of the process of tightening monetary policy when the economy improves. In the meantime, we earn interest on the securities we hold. In fact, the Federal Reserve's securities purchases and other actions during and after the crisis have had the side effect of reducing the federal budget deficit. Last year and the year before, we returned a total of $125 billion of those earnings to the U.S. Treasury, and payments to the Treasury in the current year will be substantial as well.

In addition to our monetary policy role, the Federal Reserve shares responsibility with other government agencies for regulating and supervising banks, protecting consumers in their financial dealings, and fostering financial stability. We're working with the other agencies to significantly increase the financial reserves that banks – especially the largest banks that can put the financial system at risk – must hold against possible losses. The Fed and the other agencies also are toughening the restrictions on the kinds of financial transactions that banks can undertake and working to ensure that bankers' compensation packages do not give them incentives to take excessive risks. We are requiring banks to compensate and assist foreclosed-upon homeowners who were unfairly treated. And, importantly, we are working to increase the resilience of the financial system as a whole against financial and economic shocks that may occur in the future. We are also collaborating with the Federal Deposit Insurance Corporation to implement new rules that will make it easier for the government to unwind big financial firms if they get into trouble, rather than being faced with the terrible choice of either bailing them out or risking the collapse of the financial system if they fail.

Of course, the Federal Reserve was never intended to shoulder the entire burden of promoting economic prosperity. Fostering healthy growth and job creation is a shared responsibility of all economic policymakers, in close cooperation with the private sector. Spending and tax policy is of critical importance, but a wide range of other policies – pertaining to labor markets, housing, trade, taxation, and regulation, for example – also have important roles to play.

Financial protections for servicemembers

The Federal Reserve, along with the other agencies, is working hard to enforce an array of strengthened regulations that protect mortgage borrowers, credit card holders, and other consumers of financial services. The people in this room should be aware, in particular, of the special rights and protections provided to military personnel by the Servicemembers Civil Relief Act. The law's purpose is to allow servicemembers to perform their duties without worry of foreclosure, eviction, and civil prosecution – under most circumstances. It caps interest rates for debts incurred before a servicemember begins active duty, it prevents creditors from foreclosing on a home or repossessing a car without a court order, it gives servicemembers the option to terminate residential property and motor vehicle leases, it stays civil proceedings while servicemembers are on active duty, and it entitles servicemembers to reinstatement of health insurance that was in effect before their military service began. Additionally, Department of Defense rules regulate the terms of certain kinds of high-cost loans to servicemembers and their families, such as payday loans, tax refund anticipation loans, and motor vehicle title loans.

Advice on securing and promising financial future

It takes more than rules, however sound, and enforcement, however diligent, to provide you and your families with a promising financial future. While I have the pulpit, so to speak, permit me to offer three pieces of advice. First, while you are in the military, take advantage of training opportunities. Many specific skills learned in the military – nursing and healthcare, mechanics, computer programming, police and security work – transfer to civilian jobs. The military also offers training in various life skills. For instance, this morning I visited the Fort Bliss Army Community Service training center, which offers classes on such financial topics as budgeting, debt management, understanding credit, car buying, and protecting against identity theft. More broadly, according to a recent study, 80 percent of veterans said their military experience helped them get ahead in life.[1] They said the experience helped them mature, taught them to work with others, and built their self-confidence. The value of military experience is reflected in the fact that the unemployment rate for veterans tends to be lower than the rate for non-veterans.[2]

Second, when you leave the military, take advantage of education benefits for veterans. The Post-9/11 GI Bill pays for tuition and fees, a monthly housing allowance, and books and supplies. Keep in mind that, on average, compared with high school graduates, people with college degrees earn about twice as much and suffer about half the rate of unemployment.[3]

Finally, educate yourself about your own personal finances. Research by the Federal Reserve right here at Fort Bliss shows that financial education can pay off.[4] Beginning in 2003, the Federal Reserve collaborated with Army Emergency Relief, the U.S. Army's own financial assistance organization, to provide a two-day financial education course, taught by

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1 See Pew Research Center (2011), "War and Sacrifice in the Post-9/11 Era: The Military-Civilian Gap" (Washington: PRC, October 5) available at www.pewsocialtrends.org/2011/10/05/war-and-sacrifice-inthe-post-911-era/1.

2 In October 2011, the unemployment rate was 7.7 percent for veterans and 8.8 percent for non-veterans (not seasonally adjusted, age 18 and older).

3 In October 2011, the unemployment rate for college graduates was 4.4 percent compared with 9.6 percent for those with only a high school education.

4 See Catherine Bell, Daniel Gorin, and Jeanne M. Hogarth (2009), "Does Financial Education Affect Soldiers' Financial Behavior?" Networks Financial Institute Working Paper 2009-WP-08 (Terre Haute, Ind.: NFI at Indiana State University, August), www.networksfinancialinstitute.org/Lists/Publication%20Library/Attachments/140/2009-WP-08_Bell_Gorin_Hogarth.pdf.

the staff of San Diego City College, to younger enlisted soldiers – mostly men in their early 20s. We surveyed them about their financial history and activities at the time of the course, and we did follow-up surveys in 2008 and 2009 of both servicemembers who had participated in the course and soldiers who had not. We found that soldiers who had taken the course were more likely to make smart financial choices, such as comparison shopping for major purchases, saving for retirement, and educating themselves about money management. They were less likely to make questionable financial decisions, like paying overdraft fees, taking out car title loans, and continually running credit card balances. Making good, well-thought-out financial decisions can make all the difference to your financial future.

Conclusion

I began my remarks by describing some of our country's near-term economic challenges. I want to end by sounding a note of optimism. The U.S. economy remains the largest in the world, with a highly diverse mix of industries and a degree of international competitiveness that, if anything, has improved in recent years. The United States continues to be a great place to do business, with a strong system of laws, an entrepreneurial tradition, and flexible capital and labor markets. And our country remains a technological leader, with many of the world's leading research universities and the highest spending on research and development of any nation.

Ultimately, these strengths will reassert themselves if our country takes the steps that are necessary to prepare for the future – for example, by putting the federal budget on a sustainable path and improving our primary and secondary education system. The Federal Reserve will certainly do its part to help restore high rates of growth and employment in a context of price stability.

Let me end by again expressing my deep gratitude to all of you here for your service to our country. I am happy to respond to your questions.