

# Fed chief 'optimistic' on recovery

BY BRIAN BLACKSTONE

WASHINGTON—U.S. Federal Reserve Chairman Ben Bernanke Tuesday offered some hope that the 16-month-old recession may be losing some of its severity and said he is "fundamentally optimistic" about the economy's longer-term prospects.

"Recently we have seen tentative signs that the sharp decline in economic activity may be slowing," Mr. Bernanke said in Atlanta.

He specifically cited recent figures on housing, consumer spending, and new vehicle sales as some of those signs that the recession is slowing. "A leveling out of economic activity is the first step toward recovery," Mr. Bernanke said.

"Today's economic conditions are difficult, but the foundations of our economy are strong, and we face no problems that cannot be overcome with insight, patience, and persistence," he said.

In a question-and-answer session after the speech, Mr. Bernanke acknowledged that the job market for graduates is the most difficult in decades. But he

said the country still needs smart and hard-working people, especially in the business community, and urged students not to make financial compensation the main factor in what profession they choose.

"People ought to go into a profession based on what they enjoy, what is valuable to them, what they think is valuable to their society," Mr. Bernanke said.

Referring to the current economic crisis, Mr. Bernanke said "it is clear that some of the compensation and some of the risk-taking was excessive"



Ben Bernanke

in the financial community. There will be a more vigilant regulatory environment from now on, he added.

Mr. Bernanke also addressed the inequities in wealth between whites and minorities. "Part of it has to do, I think, with financial education," Mr. Bernanke told students at Morehouse Col-

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# Bernanke sounds an optimistic note

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lege, a historically black school. "There needs to be broader understanding in minority communities ... about the importance of saving and building a credit record."

Mr. Bernanke's cautiously upbeat comments on the economy echo those made last week by White House economic adviser Lawrence Summers, who said the sense of "free fall" should wane in the months to come.

Though the U.S. economy likely contracted sharply again in the first quarter following the fourth quarter's 6.2% plunge in gross domestic product, economists expect a smaller decline this quarter, followed by stabilization later this year.

But risks remain, especially from the labor market. The U.S. is currently shedding jobs at a rate of about 650,000 per month. If that continues, it could stamp out a consumer-driven recovery before it takes hold. March retail sales, released Tuesday, were disappointingly weak, an indication that consumers still face major headwinds.

Mr. Bernanke also stressed that despite the extraordinary efforts the Fed is taking to support financial markets and the economy, it hasn't taken its eye off inflation. The Fed "treats its obligation to ensure price stability extremely seriously," he said.

Price stability doesn't necessarily mean that inflation is zero, and Mr. Bernanke noted that most Fed officials would like to see annual inflation of around 2% over the long term. "Right now, because of the weakness in economic conditions here and around the world, inflation has been running less than that, and our best forecast is that inflation will remain quite low for some time," he said.

Still, he warned that as the economy strengthens, financial markets heal and the demand for goods and services rebounds, the liquidity the Fed has pumped into the system could pose an inflationary threat unless key interest rates rise and some liquidity is drawn back out of the system.

Mr. Bernanke signaled that officials are mindful of the need for an exit strategy once the economy improves. Fed officials, he said, "are fully committed to acting as needed to withdraw on a timely basis the extraordinary support now being provided to the economy and we are confident in our ability to do so."

Mr. Bernanke expressed confidence in the Fed's ability to pro-

mote economic stability through a variety of efforts including credit programs and open-market securities purchases, saying "the Fed's toolkit remains potent, even though the federal funds rate is close to zero and thus cannot be reduced further."

He again defended the federal government's decision to rescue American International Group Inc., saying "preventing the failure of AIG was the best of the very bad options available." He acknowledged that many Americans see the AIG rescue as unfair because other companies, including nonfinancial and smaller financial firms, haven't been treated in the same manner. "Allowing AIG to at least partly avoid the discipline of the marketplace also sets a bad precedent," he said.

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