Bernanke says Europe won't derail U.S. recovery

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WASHINGTON — The European debt crisis is likely to have only a "modest" impact on the U.S. economic recovery as long as Wall Street stabilizes, Federal Reserve Chairman Ben Bernanke told Congress on Wednesday.

Testifying before the House Budget Committee, Bernanke struck a more confident tone that the recovery will remain intact despite problems in Europe as well stubbornly high unemployment and a fragile housing market here at home.

"The economy ... appears to be on track to continue to expand through this year and next," Bernanke said.

However, the pace of the expansion — 3.5 percent this year by the Fed's estimate — won't be strong enough to quickly bring relief to the 15 million Americans who are unemployed. The unemployment rate now at 9.7 percent would likely see only a "slow reduction," Bernanke warned.

Fears have grown in recent weeks that the recovery could be derailed.

One worry is if Europe's debt crisis turns into a broader financial contagion, crimping lending in the United States and around the globe. The situation has spooked investors, sending Wall Street into periodic nosedives.

Another worry is that hiring in the United States by private companies could stall. That fear was stoked by a government report last Friday, showing that job creation at private companies in May slowed sharply, with businesses adding only 41,000 new jobs, the fewest since the start of the year.

However, Bernanke said signals suggest that the economy will keep on plodding ahead as massive government stimulus fades. Consumers and businesses have picked up the baton from the government and are spending sufficiently to keep the recovery on track, he said. Still, spending by consumers is much more subdued than in the early stages of past economic recoveries.

"It appears ... that the recovery has made an important transition," Bernanke told lawmakers.

Channeling the anxiety many people feel about the recovery, the panel's chairman, Rep. John Spratt, D-S.C., said: "Too many Americans continue to feel the effects of this recession and wonder when ... relief is going to come."