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Bernanke Takes Sides on Debt Limit Vote

By SEWELL CHAN

WASHINGTON — The [Federal Reserve](#) chairman, [Ben S. Bernanke](#), warned Congressional Republicans on Thursday not to “play around with” a coming vote to raise the government’s legal borrowing limit or use it as a bargaining chip for spending cuts.

In remarks after a luncheon speech here, Mr. Bernanke sided with the Obama administration in the fight over the debt ceiling, which the government is on course to hit in April or May, saying it should be raised without conditions. Some Republicans have insisted on immediate spending cuts in exchange for raising the limit.

It was the first time that Mr. Bernanke, who in contrast to his predecessors has avoided taking sides in partisan debates on fiscal matters, had spoken out on the debt ceiling issue. His willingness to do so suggested a desire by the central bank to prevent Washington lawmakers from toying with bond markets that have been volatile since the [European debt crisis](#) last year.

House Republicans have vowed to make deep spending cuts a precondition for voting to lift the \$14.3 trillion debt ceiling. The White House has described raising the ceiling as nonnegotiable, saying that spending cuts and tax increases should be considered separately. The increasingly tense debate has left Republican leaders, like the new House speaker, [John A. Boehner](#), in a politically delicate spot.

Though he called on Congress and Mr. Obama to confront “daunting fiscal challenges,” Mr. Bernanke said the debt ceiling should not be used as a negotiating tactic, warning that even the possibility of the United States not being able to pay its creditors could create panic in the debt markets.

“I think this is very remote, but it’s not something you want to play around with — the United States would be forced into a position of defaulting on its debt,” Mr. Bernanke said. “And the implications of that for our financial system, for our fiscal policy, for our economy would be catastrophic.”

He added: “So I would very much urge Congress not to focus on the debt limit as being the bargaining chip in this discussion, but rather to address directly the spending and tax issues that we all have to deal with if we’re going to make progress on this fiscal situation.”

Mr. Bernanke’s remarks, which were made in response to questions at a luncheon at the National Press Club, underscored once again his delicate position as a moderate Republican economics professor who was appointed by President [George W. Bush](#) but won a second term last year with support from Mr. Obama and Congressional Democrats.

Mr. Bernanke also expressed urgency about fiscal reform, in terms of deficit spending, saying, “There is only so far that we can kick the can down the road.”

He said, “We have to address this. And the sooner we do it, the less painful it will be and the better it will be for our economy.”

In his prepared speech, Mr. Bernanke said the United States could not rely on economic growth to solve its long-term fiscal problems, emphasizing that the country would have to cut spending, raise taxes or both.

But as before, Mr. Bernanke declined to specify how the deficit — about 9 percent of the nation’s [gross domestic product](#) each of the last two years — should be reduced.

He did, however, say that plans offered recently by a presidentially appointed fiscal commission and by

other prominent groups “provide useful starting points for a much-needed national conversation.” Those plans have called for revising entitlement programs like [Medicare](#) and [Social Security](#) and increasing tax revenue, though they differ on many specifics.

Mr. Bernanke’s increasingly urgent warnings about the deficit have been welcomed by Republicans, but on Thursday he also indicated support for Mr. Obama’s position that the debate over fiscal policy should take into account the need to improve the nation’s economic competitiveness.

Mr. Bernanke said that tax and spending changes should “serve not only to reduce the deficit, but also to enhance the long-term growth potential of our economy — for example, by reducing disincentives to work and to save, by encouraging investment in the skills of our work force as well as in new machinery and equipment, by promoting research and development, and by providing necessary public infrastructure.”

Mr. Bernanke also reiterated his defense of the Fed’s plan to lower long-term interest rates by buying \$600 billion in [Treasury securities](#). He called the bond-buying plan, which began in November and is to last through June, an appropriate response to high unemployment and low inflation.

Since August, when the Fed first signaled it was considering the strategy, Mr. Bernanke said, stock prices have “risen significantly,” inflation expectations have remained fairly steady, and interest rates on corporate bonds have fallen relative to yields on comparable Treasury securities, suggesting that investors are more confident about the outlook for businesses and less worried about the risk of defaults.

Critics say the effort — popularly known as [QE2](#) because it is the second round of the bond-buying strategy known as [quantitative easing](#) — could touch off future inflation in the United States and abroad, devalue [the dollar](#) and increase the cost of food, energy and other commodities in the developing world.

Mr. Bernanke said the United States was not to blame for inflation in emerging economies, which have

been growing at a much faster rate than the rich economies of Western Europe, North America and Japan.

The inflationary pressures, Mr. Bernanke said, arise from long-term trends — like the tendency of consumers to eat better as they move up from poverty, which tends to push up [food prices](#) — and suggest that some economies are pushing the limits of their capacity for growth.

He said that “emerging markets have all the tools they need to address excess demand in those countries,” and added, “They can adjust their exchange rates, which is something that they’ve been reluctant to do in some cases.”

That was a clear reference to China, which has managed the value of its currency, [the renminbi](#), in relation to the dollar.

On the eve of new unemployment figures for January that the Labor Department will report Friday, Mr. Bernanke predicted that “we’ll start seeing some stronger payroll reports and some lower unemployment rates pretty soon,” but cautioned that it would take years for the job market to return to normal.

He said that uncertainty about the recovery’s durability was hampering firms from hiring. “Firms have been using a lot of temporary workers, because they can bring temporary workers on and if the economy weakens again, they can let them go,” he said. “It’ll be a really good sign when we see those temporary jobs being converted into permanent jobs.”



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