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Bernanke’s Reluctance to Speak Out Rankles Some

By SEWELL CHAN

WASHINGTON — The Federal Reserve is all but certain next week to begin a multibillion-dollar effort to coax the recovery along, but privately, Ben S. Bernanke, the chairman, worries that more is needed to turn the sluggish economy around and revive employment.

He believes that without the Obama administration’s $787 billion stimulus program, the nation would have been worse off, and that Congress needs to continue to prop up the economy in the short run. He agrees that fiscal measures to support the recovery would probably make the Fed’s unconventional monetary policy more potent.

But Mr. Bernanke has been reluctant to prominently voice those views, which were gleaned from testimony, speeches and interviews with people close to him over the last several months. His predecessor, Alan Greenspan, did not display such hesitation, advocating for the Bush tax cuts of 2001 and 2003.

Mr. Bernanke is uncomfortable in that role, which he believes to be outside his purview, even — or especially — in an election season dominated by economic anxiety. He has not ruled out weighing in when a bipartisan budget commission named by President Obama delivers its report in December, but it seems unlikely that he will intervene in the battle over the Bush tax cuts.

The hesitance of Mr. Bernanke, who was President George W. Bush's chief economic adviser for six months before becoming Fed chairman in 2006, has sharply divided economists.

Some say he could guide the debate, and give a lift to the White House, by speaking out against the aggressive budget-cutting proposed by many Republican candidates, particularly those backed by the Tea Party movement.

Others assert that Mr. Bernanke needs to be more outspoken in warning of the dangers posed by the country's unsustainable debt burden. Still others say the Fed should stay out of the way, given its failure to prevent the financial crisis and the longest recession since the 1930s.

What is clear is that Mr. Bernanke is intent on not embroiling the Fed in a partisan brawl, and that he believes the central bank should weigh in on fiscal policy in only the broadest terms — even if past chairmen like Marriner S. Eccles in the 1930s, Arthur F. Burns in the '70s and Paul A. Volcker in the '70s and '80s at times broke that mold.

"The chairman's relative reticence is unusual, but it reflects the difficult circumstances in which the Fed now operates," said Iwan W. Morgan, a University of London historian who studies American fiscal policy. "Its credibility, which was so high in the Volcker and early Greenspan years owing to its success in constraining inflation, is now at its lowest ebb since the inflationary 1970s."

Mark W. Olson, who served with Mr. Bernanke on the Fed's board of governors and is now co-chairman of Treliant Risk Advisors in Washington, acknowledged that "fiscal policy decisions could either exacerbate or negate monetary policy decisions," but said that Mr. Bernanke wanted to avoid the "oracle trap" into which Mr. Greenspan sometimes fell.

Mr. Greenspan's reputation as a sage, developed over 18 years as chairman, has lost its luster, owing not only to his aversion to regulation and his decision to keep interest rates low after the 2001 recession, but also to his support for the tax cuts, which he has since renounced, saying the cuts should be allowed to expire.

“For a long time, Alan Greenspan’s pronouncements were viewed in Congress and elsewhere as if orchestrated on Mount Sinai, and there seems a consensus now is that this was a mistake,” said Bernard Shull of Hunter College in New York.

As a scholar of the Depression, Mr. Bernanke chastised Japan for being too timid in combating deflation and advocated overwhelming force as a response to financial crises — advice he has followed at the Fed.

But Mr. Bernanke, who was confirmed to a second term in January by an uncomfortably narrow margin, has been adroit in avoiding fiscal controversy.

At a pair of Congressional hearings in September, for example, he gave each party a message it wanted to hear. He told Democrats that the government should maintain short-term fiscal support for the recovery. He assured Republicans of the need to rein in deficits and stabilize debt levels. And when pressed, he declined to be precise.

“I’m reluctant to take positions on specific tax and spending measures,” he told Representative Spencer T. Bachus of Alabama, the top Republican on the House committee that oversees the Fed. “I’m sure you can understand my position on that.”

However, Mr. Bernanke has spoken of the budgetary challenges posed by an aging population. And he came the closest he has in a while to advocating fiscal measures in an Oct. 4 speech in Providence, R.I., when he suggested that the government adopt fiscal rules — in essence surrendering some of Congress’s and the president’s discretion.

Congress already uses so-called pay-go rules, which require that spending increases or tax cuts be offset within a 10-year horizon, but there are significant exemptions. Moreover, the rules are intended only to prevent projected deficits from getting worse and do not require Congress “to reduce the everincreasing deficits that are already built into current law," Mr. Bernanke noted.

Of the dozen economists interviewed for this article, those who favored additional stimulus tended to want Mr. Bernanke to speak out.

"Further short-run fiscal expansion paired with credible measures to deal with longer-term deficits would be a good idea," said Alan J. Auerbach, a professor of economics and law at the University of California, Berkeley. "The political difficulty of accomplishing this puts pressure not only on the Fed but also on our trade policy, where we are forced to lean more heavily on China."

William G. Gale, of the Brookings Institution, said additional federal spending would be more effective than new debt purchases by the Fed — a strategy known as quantitative easing — and that Mr. Bernanke should at least explain the connection between the two.

"By pursuing quantitative easing, he is committing to monetary expansion," Mr. Gale said. "He has the right to say that he has made the commitment, and now it is time for Congress to make a similar commitment."

Other economists say the Fed has already gotten dangerously close to the Treasury Department, given their collaboration under Mr. Bush in bailing out Wall Street, and in propping up the housing market.

"The distinction and separation of monetary and fiscal policy has almost disappeared," said Alberto F. Alesina, an economics professor at Harvard. "This is, I believe, dangerous."

Another Harvard professor, Martin S. Feldstein, who like Mr. Bernanke is a former chairman of the White House Council of Economic Advisers, said, "There have been times when the Fed has in effect said: If fiscal policy is tightened, the Fed will be able to lower interest rates. That does not apply now."