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July 22, 2010

Fed Would Act if Needed, Chairman Says

By SEWELL CHAN

WASHINGTON — A day after signaling that he had no immediate plans to take further steps to prop up the economy, the [Federal Reserve](#) chairman said Thursday that he was prepared to do so if the outlook worsened.

The chairman, [Ben S. Bernanke](#), who had described the nation's economic outlook as "unusually uncertain" in presenting the Fed's semiannual monetary policy report to Congress on Wednesday, was somewhat more explicit about his thinking in the second day of testimony.

"We are ready, and we will act if the economy does not continue to improve, if we don't see the kind of improvements in the labor market that we are hoping for and expecting," Mr. Bernanke told Representative Melvin L. Watt, Democrat of North Carolina, at a hearing of the House Financial Services Committee.

"We have certainly utilized our principal tools, our most obvious conventional tools, anyway," Mr. Bernanke added. "And so we would have to step into new areas. I do believe that there are things we could do, and we are considering all options."

Mr. Bernanke, who called unemployment "the most important problem we have right now," offered additional details in evaluating the steps the Fed could take, having exhausted the usual tools of

monetary policy.

The Fed has held its benchmark short-term interest rate at a record low, a range of zero to 0.25 percent, since the end of 2008, and has been saying the rate would stay there for “an extended period.”

Mr. Bernanke said the Fed could alter that language to communicate “our intentions about future policy ease or future policy action, perhaps in a context of some conditionality or a framework that will help clarify our willingness to maintain policy support for the economy.”

Many economists do not expect the Fed to begin to tighten monetary policy until next year at the earliest. By altering the “extended period” language, the Fed could potentially lengthen that time horizon even further, damping inflation expectations.

Mr. Bernanke also said that the Fed could lower the interest rates it pays on excess reserves, the funds banks keep at the Fed above what they are required to — currently about \$1 trillion. Congress only authorized the Fed to start paying such interest in 2008, during the [financial crisis](#); the rate is currently 0.25 percent.

Representative Gary Peters, Democrat of Michigan, asked Mr. Bernanke why the Fed did not immediately cut the rate to zero, which would increase the sum the Fed turns over to the [Treasury](#) each year and also potentially spur banks to lend.

Mr. Bernanke said that step “certainly is an option,” but said the rate was set at 0.25 percent largely for “a technical reason”: propping up short-term money markets, like the federal funds market that banks use to lend money to each other overnight.

A third option is to further expand the Fed’s balance sheet, which nearly tripled as the Fed bought mortgage bonds and government debt to put downward pressure on long-term rates.

But Republican lawmakers, in particular, were skeptical about any further actions by the Fed.

Representative Randy Neugebauer, Republican of Texas, asked: “At what point in time do we say,

maybe the marketplace just has to work itself through this, and that the Fed and the federal government need to just kind of be still for a while and let normal market forces come into play?”

Mr. Bernanke replied: “We’re not interfering with market forces. We’re just trying to provide some support through accommodative financial conditions, to give the private sector the opportunity to invest and grow.”

Other lawmakers, mostly Democrats, pleaded with the Fed to do more.

“We have not moved as aggressively, as passionately, on the unemployment and the jobs situation during this downturn as we have on Wall Street and bailing out these companies,” said Representative David Scott, Democrat of Georgia.

Mr. Bernanke told him: “I would respectfully disagree that we haven’t been doing anything or have not been urgent. We have pushed monetary stimulation to the highest point in American history. We have zero interest rates. We have tripled our balance sheet.”

The lack of consensus about what the Fed should do next was echoed by economists.

Richard C. Koo, chief economist at the [Nomura Research Institute](#) in Tokyo, told the committee that monetary policy was of limited help in recessions that follow the bursting of debt-financed asset bubbles.

Companies are paying down debts rather than trying to make profits, he said, and stimulus spending by governments remains essential.

“With disappearing borrowers and reluctant lenders, it is no wonder that, after nearly two years of zero interest rates and massive liquidity injections, industrial production is still at the level of 2004, and the unemployment rate is almost in double digits,” he said.

Allan H. Meltzer, an economist at [Carnegie Mellon University](#) and the leading historian of the Fed,

sided with Republicans who said that uncertainty — compounded by government indebtedness — was the greatest constraint on economic growth.

“We do not need more monetary stimulus,” Mr. Meltzer testified. “We need programs that get the banks to increase lending and businesses and consumers to increase spending. Reducing uncertainty and restoring confidence is the place to start.”

Fed Official to Retire

William L. Rutledge, the head of bank supervision at the [Federal Reserve Bank of New York](#) since 1999, announced Thursday that he would retire at the end of this year.

The Fed’s Board of Governors has been moving to revamp how it regulates institutions. Much of that oversight is conducted by the 12 Fed district banks, and the New York Fed was criticized for failing to adequately oversee banks like [Citigroup](#) before the 2008 financial crisis.

The regulatory overhaul signed into law by [President Obama](#) on Wednesday gives the Fed new authority over the financial system. Mr. Rutledge called the law an “important milestone.”



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