Bernanke mum on Fed actions

Fed chairman warns failure to avoid budget crisis could push economy back into recession

By Martin Crutsinger
Associated Press

WASHINGTON — Federal Reserve Chairman Ben Bernanke painted a dark picture of where the U.S. economy is headed if Congress fails to reach agreement soon to avert a budget crisis.

"It would probably knock the recovery back into a recession and cost a lot of jobs, and would greatly delay the recovery that we're hoping to facilitate," said Bernanke at the end of two hours of testimony Tuesday before the Senate Banking Committee.

But Bernanke said lawmakers must go beyond the year-end issues and come up with on a plan to shrink the budget deficit. Otherwise, the United States could suffer a financial crisis marked by rising interest rates.

"We might face ... a financial crisis where interest rates would rise, as we're seeing now in Europe and that would feed through to other interest rates like mortgages and other kinds of rates. And it would be very costly to our economy," he said.


Bernanke

Bernanke was giving his mid-year report on the state of the economy. And that wasn't pretty either. It's growing modestly but has weakened in recent months, he said. Job growth has slumped, manufacturing has weakened and consumers have lost confidence and have cut back on spending.

The Fed is prepared to take further action if growth doesn't improve. Bernanke provided no clues about what steps the Fed might take or whether any action was imminent.

But Bernanke noted that there is only so much the Fed can do

If Congress doesn't take action by the end of the year, a package of tax cuts adopted during George W. Bush's administration expire while deep spending cuts kick in.