It's the economy, politicians



Jean-Claude Trichet of France, president of the European Central Bank, chats with Federal Reserve chairman Ben Bernanke in Jackson Hole, Wyo., on Friday. REED SAXON / THE ASSOCIATED PRESS

Bernanke urges Congress to act

He says current recovery needs attention from D.C., not more Fed intervention

By Paul Wiseman
THE ASSOCIATED PRESS

JACKSON HOLE, Wyo. — Federal Reserve Chairman Ben Bernanke has a message for Congress: Do more to stimulate hiring and growth, or risk delaying the economy's return to full health.

Bernanke held out the prospect Friday that the Fed might take further steps later to help the economy, but he offered no new plans for now.

At a time when Congress has focused on shrinking budget deficits, Bernanke agreed that doing so is important for the long term. But he warned lawmakers not to "disregard the fragility of the current economic recovery."

Investors had hoped Bernanke would use his much-anticipated speech at an economic conference in Jackson Hole to unveil some aggressive measure to jolt the economy.

He did say the Fed's September policy meeting will be extended to two days, instead of the scheduled one, to permit a "fuller discussion" of the central bank's options.

"He appears to be saying that the Fed has largely played its part and that the politicians need to step up their game," said Paul Dales, senior U.S. economist at Capital Economics.

Investors seemed to take comfort from Bernanke's view that the job market and the economy will return to full health in the long run and the notion that the Fed might provide more help. After initial losses, the Dow Jones industrial average closed up 134 points. Broader stock indexes also gained.

Bernanke's speech came shortly after the government said the economy grew at a scant 1 percent annual rate in the April-June quarter — even slower than previously estimated.

The economy is still hobbled by a depressed housing market, high oil prices and fears that the European debt crisis will deteriorate into a repeat of the 2008 financial crisis. The Dow has lost about 11 percent of its value since late July on fears that the economy might slip back into recession.

Friday, Bernanke blamed this summer's political squabbling over raising the

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federal debt limit for undermining consumer and business confidence. And he warned that further gridlock in Washington would "pose ongoing risks to growth."

The Fed chief noted that the depressed housing sector has delayed a full recovery in the broader economy. He said the home market should gradually return to health — a process he said the government should support.

In his speech in Jackson Hole a year ago, Bernanke signaled that the Fed would begin a new round of Treasury bond purchases to try to lower long-term interest rates, spur spending and boost the stock market. His words ignited a 28 percent, eight-month rally in the Dow.

This time, Bernanke merely repeated that the Fed "has a range of tools that could be used to provide additional monetary stimulus."

The most powerful weapon the Fed has left would be a third round of bond purchases. Critics, from congressional Republicans to some Fed officials, have raised concerns that the Fed's Treasury purchases could ignite inflation and speculative buying on Wall Street, while doing little to aid the economy.

Bernanke pushed back against that notion in his speech. He said that with oil and other commodity prices easing, he expects long-term inflation to remain low well into 2012.

Others have questioned whether any further lowering of long-term rates is needed. Investors seeking the safety of U.S. debt have forced down the yield on the 10-year Treasury note to 2.19 percent — a full point lower than it was when the Fed completed its Treasury purchases about two months ago. Yet the economy is still sputtering.

The Fed also could take more modest steps. It could eliminate interest payments on money that banks keep on deposit at the Fed, encouraging them to make loans instead. Or it could reshuffle its portfolio of investments, replacing shorter-term bonds with longer-term ones to help push down long-term interest rates.

Aneta Markowska, senior U.S. economist at Societe Generale, said the extension of the Fed's September meeting to two days suggests the possibility that it could unveil a new program soon.

Roberto Perli, a former Fed official who is a managing director at International Strategy & Investment, said Bernanke and other Fed policymakers are waiting to see if the economy improves in the current July-September quarter.

John Silvia, chief economist at Wells Fargo, suggested that Bernanke would have to overcome opposition within the Fed to take any further bold steps to lift the economy. Earlier this month, three of the 10 members on the Fed's policy committee voted against Bernanke's plan to keep short-term rates near zero through mid-2013.

Because of that rare level of dissent, Silvia doubts that Bernanke could muster support for a third round of Treasury purchases.

"When you're dealing with three dissents," he said, "it's hard to have an aggressive policy."

Many economists note, however, that the economy's main problem is not that interest rates are too high. They say the main problem is that consumer spending remains too weak. So businesses feel little incentive to hire, expand and invest.

Until demand for goods and services steps up, the Fed has limited ability to strengthen the economy.

Joshua Shapiro, an economist at MFR Inc., said Bernanke was conceding that the Fed has "basically exhausted its tools."