Fed chief: US must cut deal on budget

Bernanke: Uncertainty on 'fiscal cliff' holds back economy

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By Martin Crutsinger
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Federal Reserve Chairman Ben Bernanke on Tuesday urged Congress and the Obama administration to strike a budget deal to avert tax increases and spending cuts that could trigger a recession next year.

Without a deal, the measures known as the "fiscal cliff" will take effect in January.

Bernanke also said Congress must raise the federal debt limit to prevent the government from defaulting on Treasury's debt. Failure to do so would impose heavy costs on the economy, he said. Bernanke said Congress also needs to reduce the federal debt over the long run to ensure economic growth and stability.

Uncertainty about all these issues is likely holding back spending and investment and troubling investors, the Fed chairman said in a speech to the Economic Club of New York.

Resolving the fiscal crisis would prevent a sudden and severe shock to the economy, help reduce unemployment and strengthen growth, he said.

"A stronger economy will, in turn, reduce the deficit and contribute to achieving long-term fiscal sustainability," Bernanke said. Bernanke also said the severity of the Great Recession may have reduced the U.S. economy's potential growth rate. He didn't say by how much or how long slower-than-normal growth might persist.

Bernanke said several factors have weighed on growth: Long-term unemployment has eroded many workers' skills and led some who have lost jobs to **stop** looking for one.