

FORT WORTH BUSINESS

Lawmakers grill Fed chief in testy hearing on Capitol Hill

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The Federal Reserve is facing heightened political pressure from both sides of the aisle as it debates whether to keep raising interest rates amid a gloomier outlook for the global economy.

Lawmakers adopted a confrontational tone Wednesday during Fed Chair Janet Yellen's hearing before the House Financial Services committee, grilling her on the central bank's strategy for unwinding its historic support for the nation's recovery.

"Tightening without bipartisan support has historically been a challenge for the Fed," said Mark Calabria, director of financial regulation studies at the right-leaning Cato Institute. "The Fed may soon find itself without any political friends, a situation largely of its own making."

Republicans have long fought to rein in the central bank's powers, worried that years of Fed stimulus is distorting the economy. On Wednesday, the House Financial Services committee released a letter from about two dozen economists urging the Fed adopt more stringent rules to guide its decisions.

"It is fatal conceit to believe that the Fed is capable of micromanaging our economy to some state of economic nirvana," committee chairman Rep. Jeb Hensarling (R-Texas) said.

Democrats have been supportive of the Fed's aggressive actions to jumpstart America's sluggish economy. But they raised questions Wednesday about whether the central bank should raise interest rates in March after U.S. growth slowed in late 2015.

Members of both parties criticized the Fed for paying interest to the nation's largest banks on the reserves held at the central bank. A decade ago, Congress gave the Fed the power to make those payments, and they have since become a critical tool in the Fed's efforts to phase out its stimulus. But on Wednesday, lawmakers attacked the provision as a payout for large financial institutions.

"It looks like we're going to have some bipartisan concern on this issue," said ranking member Rep. Maxine Waters (D-Calif.), exchanging a smile with Hensarling. "We really do have to deal with this issue."

Lawmakers and Yellen sparred on a host of other issues, including the structure of the central bank, the size of its more than \$4 trillion balance sheet and whether it has the legal power to take interest rates negative. In one particularly confrontational exchange, Rep. Sean Duffy lambasted

Yellen over the Fed's handling of documents related to congressional inquiry over a leak at the central bank in 2012.

The testy hearing underscored the uphill battle confronting the Fed both in Washington and on Wall Street after it raised interest rates last year for the first time since the Great Recession.

The move was intended to signal the central bank's confidence in the health of the recovery, the first step in a gradual campaign to return its benchmark rate to a more normal level after holding it at zero for seven years. At the time, officials indicated they expected four more rate hikes this year — a veritable crawl by historical standards.

But several Democrats on Wednesday urged the central bank to consider high unemployment in minority communities and slow growth in wages. Demonstrators in green T-shirts from the group Fed Up filled the seats in the hearing behind Yellen, who noted that the central bank can only affect broad changes in the economy.

"Our powers are not targeted at the experience of particular groups," Yellen said.

Wall Street is doubtful that the Fed will move again when it meets in March. Some analysts have even predicted that the central bank will not raise rates again this year.

U.S. stock markets opened higher Wednesday but moderated those gains by the afternoon. The blue-chip Dow Jones Industrial Average was flat at noon, while the broader Standard & Poor's 500-stock index was up 11 points, or 0.6 percent.

In her testimony, Yellen cautioned that continued turmoil in financial markets could dampen U.S. growth and acknowledged the risks from a sustained slowdown in emerging economies. She pointed to recent declines in stock markets, higher interest rates for risky borrowers and the growing strength of the dollar as potential threats. Contributing to the cloudy outlook, she said, were renewed fears of weakness in China and the collapse of commodity prices.

"As is always the case, the economic outlook is uncertain," she said. "Should any of these downside risks materialize, foreign activity and demand for U.S. exports could weaken and financial market conditions could tighten further."

Still, Yellen underscored strength in other sectors of the economy. The job market has made substantial gains since unemployment peaked at 10 percent in 2010. The jobless rate is now just 4.9 percent, in line with what many economists believe is its lowest sustainable level. The number of discouraged workers and those in part-time jobs who want more hours have dropped, though Yellen said there is room for more improvement.

In addition, consumer spending has remained relatively robust, which Yellen attributed in part to lower oil prices. Auto sales hit a record high last year, and residential construction has also recovered. Outside of the energy sector, business investment also improved.

"Ongoing employment gains and faster wage growth should support the growth of real incomes and therefore consumer spending, and global economic growth should pick up over time," she said.

Though some economists have forecast that the odds of a recession have risen in recent months, Yellen indicated that scenario remained unlikely — and explicitly stated that she does not expect the Fed will lower rates again any time soon.

"We want to be careful not to jump to a premature conclusion about what is in store for the U.S. economy," Yellen said.