

Fed's Bernanke to give rare press conference

By Andrew Beatty (AFP) – 13 hours ago

WASHINGTON — The head of the US Federal Reserve will take questions from the press on Thursday, a step that experts say is just short of revolutionary for the normally reserved central bank.

Instead of delivering an ever-so-carefully manicured speech and then slipping off the dais to the echo of gentle applause, Chairman Ben Bernanke will, unusually, hang around for a few questions from the press before departing.

It's a seemingly small step, but Bernanke knows any unscripted response he utters will be parsed, reported on and put to work by investors, with billions if not trillions of dollars at stake.

While Fed chairmen have occasionally given interviews and spoken to journalists off the record, formal press conferences by a sitting chairman are a rarity.

During the financial crisis Bernanke appeared with then-Treasury secretary Hank Paulson to explain how they proposed to rescue the US banking system, but by-and-large the Fed has stuck to carefully crafted speeches and meeting statements to get its point across.

But with the economy still shaky and most of the Fed's policy ammunition expended -- interest rates could not be lower and billions of dollars are being spent on stimulus -- Bernanke hopes to mold the economy in another way, wielding his influence through the press.

It is a radical change for an institution that just decades ago did not even inform the public about its interest rate decisions -- any central bank's main policy tool.

While a press conference is not the Fed's first choice, it is a necessary one, according James Hamilton an economics professor at the University of California and former Federal Reserve visiting scholar.

"It used to be that the Fed's main policy tool was to set interest rates. In that situation communication amounted to what that rate was going to be," he said.

But today, he added, "expectations of what the Fed is going to do next are a critical component of its policy and its ability to affect things."

"They are facing a new challenge with an old problem."

By simply adjusting expectations about future policies, growth, inflation, unemployment the Fed will hope to influence how the economy behaves in the future and how markets react.

As a top Fed policy panel recently put it, a "greater public understanding of the committee's interpretation of its statutory objectives could contribute to better macroeconomic outcomes."

Bernanke will also hope to avoid a repeat of the recent reaction to his \$600-billion plan to prime the economy, which was condemned by some as unnecessary even as the Fed struggled to convey that it thought growth and inflation were too low.

A press conference is needed to improve the Fed's standing after anger at bank bailouts, according to Mark Calabria a former Senate staffer now with the Cato Institute, a libertarian think tank.

"A lot of this is geared at trying to rebuild the public perception of the Fed," he said citing the damage done by the Fed's recent involvement in hot button political issues.

But for Bernanke, the pitfalls are many and varied.

For years he has watched -- perhaps with just the slightest hint of schadenfreude -- as his Japanese and European counterparts struggled to navigate regular press conferences without prompting a market meltdown.

"There is a risk that you say things a little spontaneously, and that is never what you want from the central bank," said Hamilton.

If history is anything to go by, Bernanke could just as easily trip up by misjudging the sporting affiliations of the press pack as answering the question of an attractive Wall Street journalist in too direct a way.

His European Central Bank counterpart Jean-Claude Trichet was once heckled at a press conference in Germany for mentioning the national team's soccer World Cup defeat at the hands of Spain the night before.

Bernanke himself once admitted to a "lapse in judgment" after commenting very directly about interest rates after a female newsreader's dinner question.

He will be hoping for no similar lapses of judgment on Thursday.