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Citing Fed's Efforts, Bernanke Says U.S. Economy Is Growing Stronger

By Binyamin Appelbaum

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WASHINGTON — A few months of scrambled economic data have not altered the Federal Reserve's basic view that the American economy is gaining strength, nor its intention to start pulling back soon from its stimulus campaign, the Fed's chairman, Ben S. Bernanke, said Tuesday evening.

Mr. Bernanke, in a speech with valedictory overtones as he prepares to step down, described the Fed's efforts to revive the economy since 2008 as coherent, consistent and successful. And he emphasized once again that even as the Fed begins to retreat, it would maintain the bulk of the campaign for years to come.

The speech, delivered at the annual dinner of the National Economics Club, did not directly address the timetable for the Fed's retreat, but in combination with other recent remarks by Fed officials, it is clear that they have not ruled out a change in policy as soon as December.

The Federal Open Market Committee, which sets policy, "still expects that labor market conditions will continue to improve and that inflation will move toward the 2 percent objective over the medium term," Mr. Bernanke said. "If these views are supported by incoming information, the F.O.M.C. will likely begin to moderate the pace of purchases."

Mr. Bernanke and other Fed officials are trying to prepare investors for a shift in Fed policy that is proving difficult to manage. The Fed is holding short-term interest rates near zero to reduce borrowing costs for businesses and consumers, its primary means of stimulating the economy. It is also buying $85 billion a month of Treasury and mortgage-backed securities to further reduce borrowing costs, which officials view as a temporary supplement.

The Fed's policy makers would like to wind down the bond buying. They also would like interest rates to stay low. But when Mr. Bernanke hinted in June that the Fed was getting ready to taper off the purchases, investors responded as if the Fed had also announced its intent to raise interest rates more quickly.

Mr. Bernanke said Tuesday that the rise in interest rates was "neither welcome nor warranted." The Fed said last year that it would hold short-term rates near zero at least as long as the unemployment rate remained above 6.5 percent. More recently, officials have emphasized that rates could remain near zero for some time after unemployment falls below that threshold. Mr. Bernanke offered a new formulation on Tuesday, telling the audience of economists that 6.5 percent would be the beginning of the Fed's internal debate.

"Crossing one of the thresholds will not automatically give rise to an increase in the federal funds rate target," Mr. Bernanke said. "Instead, it will signal only that it is appropriate for the committee to begin considering whether an increase in the target is warranted." Some Fed officials support a lower threshold, an option that Mr. Bernanke did not address.

Mr. Bernanke said that investors needed to understand that tapering off the bond purchases would not signal that the Fed planned to raise interest rates more quickly. "Markets are beginning to appreciate that they are separate tools and that the mix of those tools will change somewhat over time," he said in remarks after his prepared speech. "It's the most fundamental point I wanted to make," he added

The Fed has made only modest progress in increasing job growth. The share of Americans with jobs has not climbed since the recession, and inflation has hovered in recent months near the lowest annualized pace since the Great Depression, another sign of an economy still far from good health.

Lawrence H. Summers, formerly President Obama's chief economic adviser, has worried at recent public appearances about the risk of long-term economic stagnation.

After the speech, when a member of the audience suggested that the Fed's efforts were largely unavailing, Mr. Bernanke responded, "I hate to shock you but I don't agree with that."

"The Fed is making an important contribution to middle class and lower income folks' welfare," Mr. Bernanke said.

Some Fed officials see the limited success of the Fed's efforts as evidence that the Fed should do more. Charles L. Evans, president of the Federal Reserve Bank of Chicago and a leading advocate for stronger action, said on Tuesday that the Fed "is probably going to purchase $1.5 trillion in assets from January 2013 until we wind this down."

Mr. Bernanke, who has said that he expects purchases to conclude by the middle of 2014, reiterated in his speech on Tuesday the sobering reasons that he has supported the stimulus campaign, including "elevated unemployment, below-target inflation, lingering economic fragility, and the harmful effects of long-term unemployment on our society and economic potential."

Critics, however, see the Fed's efforts to increase employment as ineffective, and its desire to increase inflation as misguided. Charles I. Plosser, president of the Federal Reserve Bank of Philadelphia, last week questioned the idea that the central bank should work to avoid deflation, or falling prices.

"It's not obvious a period of mild deflation is such a bad thing," Mr. Plosser said in response to a question from the audience after a speech at the libertarian Cato Institute.

Navigating those differences will not be Mr. Bernanke's problem for much longer. He is scheduled to step down at the end of January. The Senate Banking Committee has scheduled a Thursday morning vote on the nomination of Janet L. Yellen, currently the Fed's vice chairwoman, to be his successor.

This article has been revised to reflect the following correction:

Correction: November 20, 2013

An earlier version of this article, using information from the Federal Reserve Bank of Chicago, misstated the view of its president, Charles Evans, about the duration of the Fed's stimulus campaign. Mr. Evans said, "We are probably going to purchase $1.5 trillion in assets from January 2013 until we wind this down." He did not say, as the regional bank originally stated, that purchases might need to continue until January 2015.