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Round Two: Bernanke Faces More Grilling From Congress

Published: Tuesday, 23 Feb 2010 | 1:27 PM ET

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Fed Chairman Ben Bernanke has a PhD in economics, but he might be wishing he'd done some course work in rhetoric, drama and political science when he appears before Congress Wednesday and Thursday in his first visit to Capitol Hill since an acrimonious confirmation process in January.

The economy appears little changed, the White House and Congress are scrambling and struggling to create jobs and banks are not lending much despite the central bank's long-running rock-bottom, interest-rate policy.

If that weren't enough, polls show voters souring on the president and Congress and November's mid-term elections already loom large.

"They're going to try to give him a hard time so when they are on their local TV new show, it looks like they're standing up for the little guy," says money manager James Awad, managing director of Zephyr Management. "The rhetoric may be a little rough, but not the substance. Everybody realizes the population is stirring and angry and not sure where to take it out on."



Ben Bernanke

"I think it might get a little uncivil," says Dean Baker, co-director of the Center for Economic Policy And Research.

That covers the rhetoric and drama. Now the politics.

At various times during Bernanke's Senate confirmation hearing, he was blamed for contributing to the financial crisis and recession, favoring Wall Street over Main Street and prolonging the misery. Some faulted him for doing too much, others for doing too little.

"I think there's still some concern." says one senior Congressional staffer close to the Democratic leadership.

Analysts don't expect the hearing to be as hostile as that one, but Bernanke's critics will be very visible and vocal during his appearance, which is ostensibly to discuss the central bank's economic and policy outlooks.

"He'll be taking a beating whenever he appears before Congress until the economy is clearly out the woods," says David Resler, economist at Nomura Securities. "There's a lot of resentment about the Fed, a lot of finger pointing."

"Bernanke's kind of a foil, but he's not responsible; there's some anger at banks," says Robert Bruce of East & Ostrop Economics. "The Fed chairman always has

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only add to the show. According to a committee briefing paper, the purpose is to examine the Fed's available policy options "to meet its mandate of fostering maximum sustainable

employment" as well as those "to exit from the emergency liquidity programs put in place during the height of the economic crisis."

That's clearly a tall order and perhaps a contradictory one.

"Those are coming from different sides," says Baker, adding that some in Congress are very worried about a serious spike in inflation while the majority is fixated only on economic growth.

"There's going to be a small and vocal minority on the Hill and on Wall Street that says, 'We don't think your exit strategy is credible,'" says Mark Calabria, a former senior staffer on the Senate Banking Committee, now with the Cato Institute.

Both groups already have plenty on record about Bernanke's exit strategy. The Fed released Bernanke's testimony on the subject after a hearing featuring the Fed chairman earlier this month that was postponed because of a snowstorm.

Some say Bernanke and the Fed's board of governors also set the table last week with a modest hike in the discount rate, which was widely interpreted as another small step in weaning the big banks of cheap money and otherwise having no impact on the broader interest-rate equation.

"In a sense, this provides him a little cover from the [financial firm] bailouts," says Calabria. "He could say, 'This is not directed at overall liquidity.'"

The discount-rate hike, however, created some initial market turmoil. Some criticized the Fed for both the timing and communication over what it considered a "mechanical" move. And that debate could bleed over into the Congressional hearings.



"It was not as clear or as transparent to the markets as we normally would have hoped," says Rep. Scott Garrett (R-N.J.), a ranking minority member of the House panel that will hear Bernanke's testimony Wednesday. "And that's troubling for the marketplace."

At the same time, Bernanke's appearances on the Hill are essentially a second chance to explain the strategy. Some in Congress are likely to try to pin him down on the conditions necessary to dictate various moves as well as the overall timeline.

"He will be prepared to carefully articulate some of the exit strategy," says Paul Wachtel of NYU's Stern School of Business. "The problem that might arise is that he might not be ready to commit to specific actions at specific times."

Wall Street and Washington are not the same audience and regardless of what Bernanke says and how clear he may be about it, people may not hear the same thing.

"The markets may think of the exit strategy is an exit from the current policy," says Resler. "What Congress may have in mind is how we get out of this recession. That will take a long time to end and very little the government does will change that."

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