

latimes.com/business/la-fi-fed-rates17-2009dec17,0,5337097.story

# latimes.com

## THE ECONOMY

### Fed chief endures a love-hate relationship with Congress

**Ben Bernanke is likely to get a second term despite being savaged by both parties. On the eve of a Senate panel vote, the Fed decides to keep a key interest rate near zero.**

By Don Lee

December 17, 2009

Reporting from Washington

Federal Reserve Chairman Ben S. Bernanke has been praised by President Obama and hailed by most mainstream economists for bold policies that played a critical role in pulling the U.S. economy back from the brink of disaster.

The Fed chief even won a celebrity accolade Wednesday when Time magazine named him Person of the Year.

But instead of basking in glory, the 56-year-old professorial Fed chairman is fighting for his job -- and for the survival of policies at the heart of efforts by the central bank and the Obama administration to keep the nation's fragile recovery on track.

Although Bernanke is expected to win support from the Senate Banking Committee today and eventually be confirmed by the full Senate for a second four-year term, he remains under continual attack in Congress.

In recent months many members of Congress from both parties have berated the Fed and its chairman, in part over the Fed's failure during the housing boom to stop reckless behavior by banks and in part because of public indignation over billion-dollar bailouts for Wall Street. The anger has fueled drives in both chambers to curb the Fed's power and subject its actions, including monetary policymaking, to congressional scrutiny.

"It is ironic that he's under such criticisms given that he played such a key role in ending the financial crisis," said Mark Zandi, chief economist at Moody's Economy.com. "I think if the Fed hadn't acted aggressively and reduced rates to zero, the financial system would still be in disarray and we'd still be in a recession."

And the criticism casts a shadow over future policy decisions, especially with congressional elections looming next fall.



**Bank of America**  
announces new CEO,  
**Brian Moynihan.**  
Read announcement.

[Learn more ▶](#)

Bank of America

The graphic features the Bank of America logo (a red and white striped triangle) on the left. The main text is in a bold, sans-serif font. Below the text is a button with the text "Learn more" and a right-pointing arrow. In the bottom right corner, there is a circular icon with a red map of the United States and a white play button symbol in the center, indicating a video announcement.

Conservatives' criticism of the government's huge budget deficits, coupled with their more assertive attitude on Capitol Hill, have already in effect imposed sharp limits on further efforts to stimulate the economy and promote job growth.

But economists, even some at conservative free-market think tanks such as the Cato Institute, credit Bernanke with helping avert an economic collapse by pushing interest rates to near zero last December and instituting unorthodox programs to spur lending and revive credit markets.

William Niskanen, who headed the Council of Economic Advisors under President Reagan, says Bernanke made a "gutsy, correct decision" in expanding the nation's money supply.

But Niskanen quickly follows the praise with a warning that there is trouble ahead for Bernanke in managing the withdrawal of emergency loans and other programs that have more than doubled the Fed's assets to \$2.2 trillion.

That will be the critical challenge for Bernanke as he looks to 2010.

If he pulls back too soon, it could hurt a recovery that many see as tenuous. But if the Fed waits too long to change course, the result could be an onslaught of inflation.

Some economists argue that it's already time to raise rates, arguing that cheap money is feeding another asset bubble.

After concluding a two-day meeting Wednesday, however, Bernanke and his Fed colleagues made clear that an increase in interest rates wasn't coming any time soon. The Fed's benchmark overnight bank-lending rate has been near zero for a year, and the central bank's policy statement indicated it would stay there for "an extended period."

But the Fed acknowledged that U.S. economic activity had picked up, noting that the housing sector was showing improvement and that consumer spending "appears to be expanding at a moderate rate."

In a nod to those calling for a return to normalization of the Fed's role, the statement outlined the central bank's plans to end some of the emergency loan programs set up at the height of the financial crisis.

"Getting out of the loan business will also help to lower the tensions between the Fed and Congress," Paul Ashworth, senior U.S. economist at Capital Economics, said in an analysis of the Fed statement.

However, Fed officials said they continue to believe that "economic activity is likely to remain weak for a time." And as in the past, they raised concerns about tight credit and especially the labor situation.

Although the Fed statement said that "the deterioration in the labor market is abating," it described the employment market as weak and businesses as reluctant to hire.

Fed officials also said inflation trends remain subdued -- an assessment buttressed by a government report Wednesday showing consumer prices remained dormant in November. Core prices, which exclude volatile food and energy costs, were unchanged from October and have been growing at an annual pace of less than 2% this year.

Such low inflation gives the Fed leeway to maintain its expansive monetary policy. Many economists don't think the Fed will start raising interest rates until the unemployment rate clearly peaks.

Economist Zandi said he didn't expect a rate increase until the third quarter of next year, when he's projecting unemployment to average 10.6%, assuming no new economic stimulus package.

Such a grim scenario for Democrats who want to retain control of Congress after next fall's elections could further complicate matters for Bernanke. Raising interest rates is never popular around election season and is likely to engender strong criticisms from many lawmakers if Fed policymakers decide they need to shift course then. Even now, many members of Congress would like to have the central bank do more to spur employment.

"I think he needs to focus much more on job creation, especially in manufacturing," said Sen. Sherrod Brown (D-Ohio), who plans to vote for a second term for Bernanke.

[don.lee@latimes.com](mailto:don.lee@latimes.com)

Copyright © 2009, [The Los Angeles Times](#)