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## **Bernanke quietly guides economy**

By Sue Kirchhoff, USA TODAY

During a break at the Federal Reserve's annual economic conference last summer, the world's most powerful central banker sat quietly by himself in the expansive stone lobby of Wyoming's Jackson Lake Lodge, tapping away on a laptop computer as vacationers strolled by, unawares.

Fed Chairman Ben Bernanke's relative anonymity was a major departure from the days of his predecessor, Alan Greenspan, when people would spy the Fed meeting sign and hang around the conference room with cameras cocked for a photo of the financial superstar.

As he finishes his first year as chairman, the unassuming Bernanke, 53, doesn't have Greenspan's head-turning sway over the general public, at least not yet, but he does have firm control of the central bank and the growing confidence of financial markets.

The former Princeton professor, Fed governor and White House adviser has steered the central bank through a turning point in an economy that was confronting a tumbling housing market and uncomfortably high inflation. The Fed, which meets here today and Wednesday to review interest rate policy, has held the target for short-term interest rates steady since June after two years of raising it to combat inflation. Economic growth slowed in the second half of 2006, but the job market strengthened.

"I congratulate you and the Fed in keeping interest rates where the American people can stand and the economy can prosper," Jim Bunning, R-Ky., the sole senator to oppose Bernanke's nomination, told him this month.

Working with other regulators, the Bernanke Fed has also tightened guidelines for commercial real estate and mortgage lending and toughened standards for complex financial products misused by energy giant Enron.

The new year brings new challenges, including a Democrat-controlled Congress that could be less deferential to a Fed chairman and board of governors appointed entirely by President Bush. (It's the first time since Ronald Reagan that one president has had such sway over the makeup of the central bank.)

Greenspan's 2001 decision to endorse the Bush administration's tax cuts also frayed relations between the Fed and many Democrats, who blame current deficits partly on Bush's tax policy.

"He faces a significant challenge of restoring credibility," says Senate Budget Committee Chair Kent Conrad, D-N.D. "He's reached out."

Bernanke, who has made overtures to a number of Democrats, recently invited Conrad for lunch in his private dining room. The Fed chief testified before Conrad's committee this month, warning of a long-term budgetary "crisis." In a break from Greenspan, Bernanke declined to endorse precise tax or spending solutions, calling those political decisions for Congress.

"I enjoy him very much ... he's not a backslapper, he's a thoughtful, serious man," Conrad says. "He's wise not to sink into the bog of specific policy recommendations. I don't think that's the job of the Federal Reserve chairman."

### **Guiding the economy**

The Fed chairman's job is to guide the economy. Business leaders and economists have become more confident about Bernanke's approach, and the outlook for the economy, in recent weeks.

But it's early to declare that the Fed has achieved an economic "soft landing," in which growth slows enough that inflation fades, but the economy doesn't falter. The housing market remains in the doldrums, and Fed officials warn that inflation is too high.

Nearly all the 56 top economists surveyed by USA TODAY Jan. 18-24 expect the USA to avoid a recession. But they are split on whether slower growth or higher inflation poses a bigger threat ahead.

Bernanke's first year (he moved in on Feb. 1) took him from Europe to China and 11 of the 12 regional Fed banks. He settled into overseeing a staff of 2,000, parrying hours of congressional questioning and making a number of trips to New York for speeches and private meetings with financial leaders.

Bernanke's policy approach is evolving, though there are stylistic differences from Greenspan, who with his wife, NBC News chief foreign affairs correspondent Andrea Mitchell, remains prominent on the Washington social scene. Bernanke sightings at glitzy gatherings are limited: He's more likely to be with his wife, Anna, a teacher, at a play or in the stands at Washington Nationals baseball games.

That's not to say Bernanke isn't social. Even as chairman, he can be spotted eating lunch in the Fed cafeteria, plopping down at tables to talk with staff. He plays basketball in the Fed gym. He is a more natural mingler than Greenspan.

Mark Pinsky, president of the Opportunity Finance Network, which encourages development in low-income areas, was appointed to the Fed's consumer advisory committee in 2002. Pinsky was a bit awestruck at his first Fed meeting, including a reception where everyone nervously awaited Greenspan.

"I look over, and there at this table is this guy who's just sitting there. He's calm and very friendly. ... He looked like he could have been a senior economist," Pinsky recalls. "I said, 'Hi, I'm Mark,' and he said, 'Hi, I'm Ben.' "

After a quarter-hour of small talk Pinsky discovered who Bernanke was, but only because a staffer came looking for the then-Fed governor.

In November, Chairman Bernanke spoke at a conference on community development Pinsky organized, a notable event because he averages just about two public speeches a month.

Bernanke is less formal, but hardly laid-back, in private meetings.

"It was more Mr. Greenspan's style to sit and listen and then ask questions at the end. ... It's more Mr. Bernanke's to carry on, in an almost conversational manner, give-and-take through the entire meeting," says Jerry Howard, executive vice president of the National Association of Home Builders, which warned against Fed rate increases.

"He clearly has certain things he wants to find out, and if it's not contained in the discussion as it's flowing, he brings it back," Howard says.

The American Bankers Association is another group that has differed with Fed policy, including the clampdown on real estate lending.

"When you meet with Bernanke, he is almost disarmingly frank. He gets to the point right away, and he gets the point you're making," says Wayne Abernathy, ABA executive director for financial institutions.

Abernathy calls Bernanke "almost judicial" in decision making, listening to a broad range of opinions and resisting snap judgments.

### **More open debate**

Internal Fed debates over interest rate policy have likewise become more open under Bernanke, though there was back-and-forth under Greenspan.

Richmond Fed President Jeffrey Lacker says Bernanke "encouraged open discussion, encouraged us to question and challenge each other's position" when he began running the Federal Open Market Committee, made up of Fed governors and regional bank presidents.

One example: When the FOMC discusses interest rate policy, Bernanke speaks last, unlike Greenspan, who went first, laying out where the central bank should go.

Bernanke's speeches and testimony are more direct than those of Greenspan, a master of deliberately tangled prose. After a few early missteps, Bernanke is becoming a more confident speaker.

Bernanke, like Greenspan, favors greater regulation of mortgage giants Fannie Mae and Freddie Mac. He's stayed the course in such areas as international banking rules or oversight of hedge funds. The new chairman has devoted a fair amount of time to consumer issues and community development in public speeches and plans an address on rising income inequality — a major issue for the Democrats.

Scott Anderson, chief economist at Wells Fargo Bank, says Bernanke puts more emphasis on economic models and less on individual data points in setting interest rate policy. Still, Pinsky and others who have met with Bernanke say he is deeply immersed in data, though he may not use some of the more esoteric statistics Greenspan used to dig up.

Where there are differences from the Greenspan Fed, such as Bernanke's endorsement of inflation targeting — setting a specific range for allowable inflation — he is moving slowly to build consensus.

Early worries in the markets that Bernanke would be A) too tough or B) too soft on inflation have receded, as the Fed's decision to hold the target for short-term rates at 5.25% seems to be working to slow inflation without unduly harming the economy.

If anything, Fed officials in recent speeches say, the markets aren't concerned enough about inflation.

### **Policy and politics**

Though Bernanke has drawn a tighter line between economics and politics, it's too loose for some.

Kenneth Thomas, a professor at the University of Pennsylvania's Wharton School, says records of Bernanke's meetings with White House and other political officials in his first four months in office show he was basically non-political.

But saying that a main duty of the chairman is guarding the independence of the Fed, Thomas faults Bernanke for visiting China in December with a delegation led by Treasury Secretary Henry Paulson on currency and trade issues.

"For him to ... spend all that time traveling around the world with the administration and Cabinet when he used to work at the White House is totally inappropriate," Thomas says.

Bernanke did travel to China on a separate, commercial flight.

Wake Forest professor James Wood, a central bank historian, says big changes in Fed policy usually result from political pressures. Since the late 1970s when then-chairman Paul Volcker tackled inflation, the Fed has had a consistent emphasis on stable prices. But large budget deficits, the escalating cost of the Iraq war and other fiscal issues could cause economic problems and prompt political calls for the Fed to once again allow higher inflation or take other steps to ease the fallout.

Bernanke has made it clear that the Fed is independent and committed to low inflation. In the past year, he's shown personal and policy skills, and signs that he has an ability to connect with the public that could come in handy.

### **Staying grounded**

Bernanke's efforts to build bridges with Democrats are helped by the fact that House Budget Committee Chairman John Spratt represents his tiny hometown of Dillon, S.C.

Bernanke returned to Dillon last summer, after receiving the "Order of the Palmetto," the highest civilian honor bestowed by the state, recognizing lifetime achievement and service. In remarks, Bernanke described growing up, helping in his family's drugstore, waiting tables at the kitschy tourist attraction South of the Border and working construction.

"Now I am an economic policymaker, and I sit in a nice office in Washington looking at reports and tables of data and following the fluctuations of the financial markets," Bernanke said.

"I try not to forget what underlies all those data: millions of Americans working hard, trying to better themselves economically, struggling to manage their family finances and worrying about the price of gas and college tuition."

*Contributing: Barbara Hagenbaugh*