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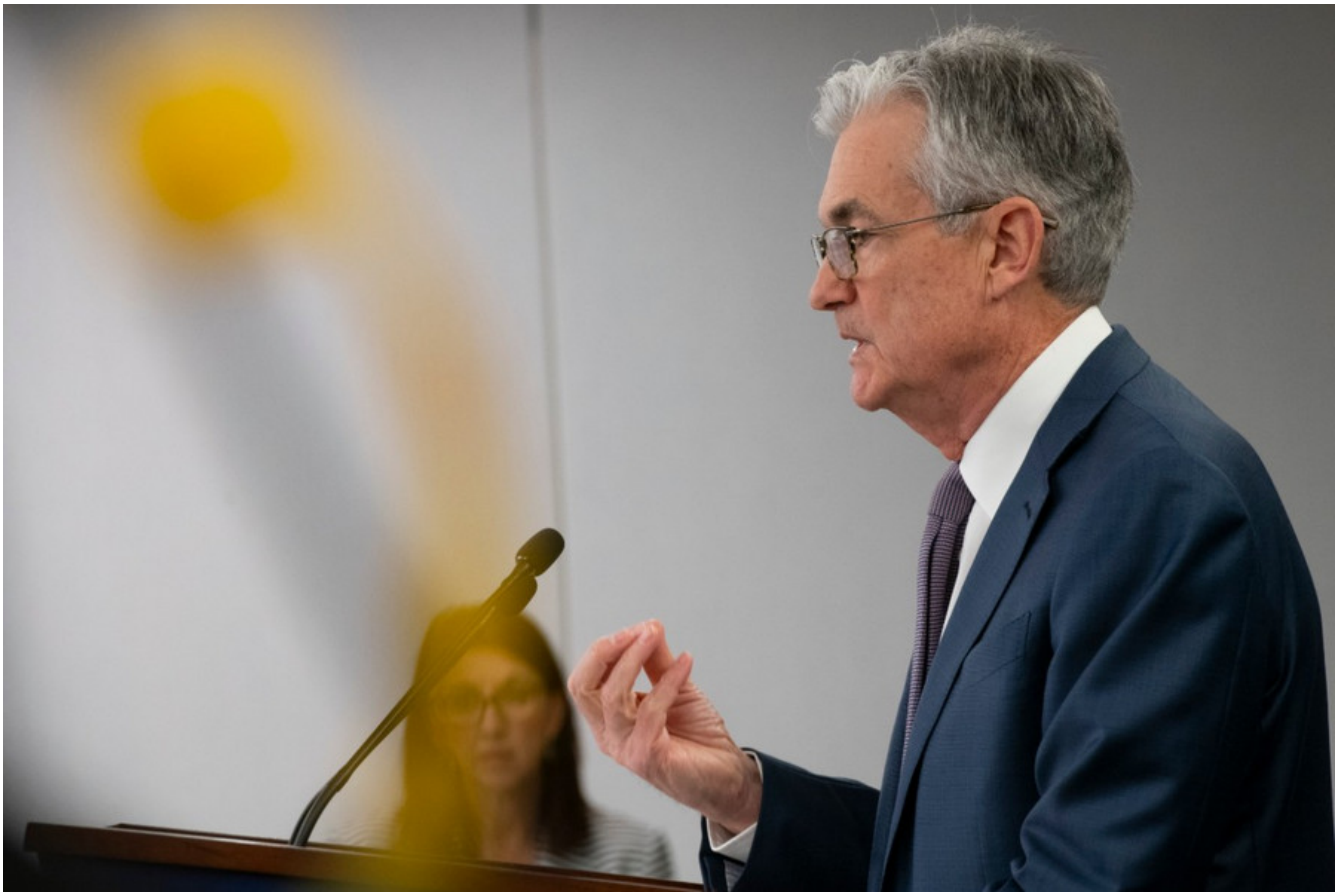
Fed's Powell: More spending from Congress 'costly but worth it'

BY VICTORIA GUIDA | 05/13/2020 09:06 AM EDT | UPDATED 05/13/2020 05:12 PM EDT



Federal Reserve Chair Jerome Powell announces a half percentage point interest rate cut during a speech in March| Getty Images

Federal Reserve Chair Jerome Powell on Wednesday warned that fallout from the coronavirus crisis could result in lingering pain for the U.S. economy and said further action by Congress to head off that damage would be worth the high cost.

"The record shows that deeper and longer recessions can leave behind lasting damage to the productive capacity of the economy," Powell said at a virtual event hosted by the Peterson

Institute for International Economics.

"Additional fiscal support could be costly but worth it if it helps avoid long-term economic damage and leaves us with a stronger recovery," he added. "This trade-off is one for our elected representatives, who wield powers of taxation and spending."

Congress is divided over what next steps to take to address the crisis. House Speaker Nancy Pelosi is planning to move ahead with a Friday vote on a new $3 trillion relief package despite resistance from President Donald Trump and Senate Republicans, who say there hasn't been enough time since the $2 trillion CARES Act passed to determine whether new legislation is needed.

But Powell's entreaties for more congressional spending, though cloaked in deferential language, have grown more forceful as the emergency has dragged on.

Underscoring the scale of the economic damage, the Fed chief said the central bank will release a survey on Thursday showing that nearly 40 percent of people in households making less than $40,000 a year had lost a job in March.

Pelosi seized on Powell's comments in a statement Wednesday, arguing that "not acting is the most expensive course."

"Today, the Chair of the Federal Reserve Bank restated the need for Congress to immediately pass further economic relief," she said. "The Heroes Act delivers the strong, urgent response that this crisis requires."

As recently as February, the nation's unemployment rate was at a 50-year low of 3.5 percent, a positive trend that was beginning to filter down to lower-income Americans. In April, the jobless rate surged to 14.7 percent.

“This reversal of economic fortune has caused a level of pain that is hard to capture in words, as lives are upended amid great uncertainty about the future,” Powell said.

He argued that lawmakers should eventually worry about fiscal discipline — which he defined as getting the economy to grow faster than the national debt — but said now was not the time for such concerns.

“I do think the time to do that is during good times, when the economy is strong and unemployment is low,” he said. “Now, when we are facing the biggest shock the economy has had in modern times is, for me, not the time to prioritize considerations like that.”

Powell added that it would be a few years before the economy is “well and truly recovered or at least mostly recovering.”

The Fed chief cited “avoidable household and business insolvencies” and “long stretches of unemployment” among a litany of potential realities that lie ahead.

“The loss of thousands of small- and medium-sized businesses across the country would destroy the life’s work and family legacy of many business and community leaders and limit the strength of the recovery when it comes,” he said.

He pledged that the Fed would continue using emergency support measures for the economy and the financial system until the crisis has passed.

“While the economic response has been both timely and appropriately large, it may not be the final chapter, given that the path ahead is both highly uncertain and subject to significant downside risks,” he said, adding that “policies will need to be ready to address a range of possible outcomes.”

Powell also once again dismissed calls for negative interest rates, a policy advocated by Trump as recently as Tuesday.

Fed officials are unanimous in their skepticism that dropping rates below zero is an effective way of boosting the economy, given mixed evidence in other countries such as in the European Union and Japan that have tried it.

“The committee’s view on negative rates really has not changed,” Powell said. “This is not something that we’re looking at.”

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