The Daily Dish

Powell Prods Congress

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Eakinomics: Powell Prods Congress

Although you might not have noticed — something else seems to have been going on — Federal Reserve Chair Jerome Powell spent Wednesday and Thursday testifying before Congress. In the end, he delivered a very simple and effective message: The Fed is successfully doing its job; maybe Congress should consider doing *its* job.

As for the first, Powell reviewed the facts on the ground. Gross domestic product grew at an annualized rate of 1.9 percent in the 3rd quarter, disappointingly down a bit from 2018. The household sector remains strong, buoyed by a very solid labor market — 3.6 percent unemployment, rising wages, and better opportunities for those with the weakest skills and least experience. Business investment is weak and reflects the large amount of uncertainty around the path of trade policy. Looking forward, he argued, "There's nothing that's really booming that would want to bust. In other words, it's a pretty sustainable picture." His written testimony made the point in more restrained language: "Looking ahead, my colleagues and I see a sustained expansion of economic activity, a strong labor market, and inflation near our symmetric 2 percent objective as most likely. This favorable baseline partly reflects the policy adjustments that we have made to provide support for the economy."

Notice the latter. The Fed reversed course on its path of rate increases, raised the size of its balance sheet to address a liquidity issue, and is pleased with the results. Good job, Fed.

But how about Congress? In his written testimony, Powell noted:

"In a downturn, it would also be important for fiscal policy to support the economy. However, as noted in the Congressional Budget Office's recent long-term budget outlook, the federal budget is on an unsustainable path, with high and rising debt: Over time, this outlook could restrain fiscal policymakers' willingness or ability to support economic activity during a downturn. In addition, I remain concerned that high and rising federal debt can, in the longer term, restrain private investment and, thereby, reduce productivity and overall economic growth. Putting the federal budget on a sustainable path would aid the long-term vigor of the U.S. economy and help ensure that policymakers have the space to use fiscal policy to assist in stabilizing the economy if it weakens."

There are two key points in this. The first is that the large, sustained projected deficits will have detrimental economic impacts ("reduce productivity an overall economic growth"). That is bad news in and of itself, but also undermines the Fed's monetary policy objectives and achievements. Second, the presence of large deficits and debt raises the specter that Congress will fail to react to a downturn with a more expansive (lower taxes; higher spending) fiscal policy. That would mean that the Fed would be the only policy actor, a situation that has been a miserable failure in Europe.

Congress is not doing its job by failing to put the budget on a sustainable trajectory. This failure portends future economic harm and the possibility that Congress is setting itself up to fail further. Not a good job, Congress.