

**Radio**



## Fed's Janet Yellen grilled by Congress for the first time

*by Mitchell Hartman – February 11, 2014*

Federal Reserve Chair Janet Yellen appears before Congress on Tuesday before the House Financial Services Committee, her first regular visit since succeeding Ben Bernanke.

A Fed chair's testimony -- and responses to members of Congress -- are always scrutinized. This time, if anything, the scrutiny will be heightened: Not only is Yellen new to the leadership role, there has been increased turmoil in global financial markets of late. Stocks have been volatile after a big selloff in recent weeks. Emerging markets are being dumped on by investors as their currencies experience volatility; countries with weak trade balance numbers are being pressured to raise the interest rates they offer on government debt, in part to compete with higher rates anticipated for U.S. Treasuries.

This global fluctuation of interest rates is partly due to the Federal Reserve winding down its extraordinary fiscal stimulus policy known as quantitative easing. The Fed has been buying tens of billions of dollars worth of bonds each month to keep interest rates low and encourage more investment and consumption in the U.S.

After a mostly-unexpected announcement late 2013 that increased the likelihood for further tapering moves in the first half of 2014, Yellen meets Congress to discuss concerns such as: ‘Is the job market getting healthier?’, ‘Is inflation a danger long-term?’, ‘Are emerging markets a threat to U.S. markets?’, and ‘Could a precipitous slowdown in U.S. or global growth change the course of tapering?’

“I believe that Janet Yellen will be as careful, as forthright, and as candid as Ben Bernanke,” predicts economist **Bernard Baumohl of the Economic Outlook Group** in Princeton, New Jersey. “And that, I think, is a departure from the kind of obfuscation that we saw with (Alan) Greenspan.”

**Baumohl** says Yellen will attempt to deflect questions that bear on what the Fed might do in specific situations -- like if a major emerging market defaulted, or if Congress failed to raise the debt ceiling, noting that market participants will listen closely for cues on asset value policy changes (i.e., for equities and real estate). They’ll be looking for hints as to “whether she is going to be able to prevent, or carefully deflate, any kind of asset bubble that may be emerging,” he added. “She is going to be doing something that no one has done before” in the wake of the financial crisis and the extraordinary fiscal measures to refloat the economy.

The damage (along with asset bubbles) that inflation-hawks warn is already on the horizon because of the Fed’s quantitative easing will also likely be a topic of questioning, predicts economist John Canally at LPL Financial in Boston.

“Consumers see inflation all the time—at the gas station, at the grocery store,” says Canally. “And it’s infuriating to the average consumer who says ‘Wait a minute, there’s inflation—my food bill’s

higher, my gasoline bill's higher too.' So Yellen may get asked about inflation. But the answers she gives might not be what consumers want to hear.”

Meanwhile, a significant bloc in Congress—and one that crosses party lines—is pushing legislation to limit the Fed’s wide powers over the economy and the financial sector. Karen Petrou, managing partner at Federal Financial Analytics in Washington, D.C., says those lawmakers won’t hesitate to grill Yellen on what they perceive as the Fed’s overreaching regulation and over-intervention in the economy, independent of the will of the legislative branch. That aggressive stance on the Fed’s leadership role originates with Ben Bernanke and his efforts to stabilize markets during the financial crisis, and Yellen also strongly backs the policy.

“It’s one of the few areas where the Republicans and more liberal Democrats really agree,” says Petrou. “They think the Fed is being too good to the big banks, is agreeing to too many international compacts that should be reviewed by Congress. They come together when it gets around to disliking and distrusting the Fed.”

One thing Janet Yellen doesn’t want, says Petrou, is to start a term by having Congress clip her regulatory wings. It’s an eventuality Yellen is likely to fight with both rhetoric, and an effort to fully cooperate fully with Congressional requests for information and additional appearances on the Hill in coming months.

Yellen also appears before the Senate Banking Committee on Thursday.

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