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Federal Reserve's Powell Warns About Failure to Raise Debt Ceiling

Economic shock from U.S. being unable to pay its bills 'not something we need right now'



Federal Reserve governor Jerome Powell spoke at an event in New York on June 1. In an interview Friday on the sidelines of the central bank's Jackson Hole, Wyo., conference, Mr. Powell said the current economic landscape 'gives us in the ability to be patient' on interest rates. PHOTO: MICHAEL NAGLE/BLOOMBERG NEWS

By Michael S. Derby

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Federal Reserve governor Jerome Powell warned the nation's elected leaders that a failure to raise the government's borrowing limit could bring real pain to the economy, in a television interview where he also stressed his belief the Fed has time to decide when to next raise interest rates.

Failing to raise the debt ceiling would mean the U.S. government wouldn't be able to pay all its bills, and that "would be unprecedented and that could be...a major shock to the economy," Mr. Powell said in an interview with CNBC on Friday on the sidelines of the Federal Reserve Bank of Kansas City's annual research conference in Jackson Hole, Wyo.

That sort of shock is "not something we need right now, and no one should assume the Fed has any way to protect American businesses and households from the effects," Mr. Powell said.

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The Fed official weighed in as elected leaders are reaching crunchtime over boosting the amount of money the government can borrow to pay for things legislators already authorized. Over recent years the debt ceiling authorization has become hostage to political fights, and brinkmanship has even led ratings firms to downgrade the U.S. government's creditworthiness as a result.

Today, Trump administration officials said they were confident the ceiling would be raised. It must happen in September and there is evidence financial markets are getting spooked by down-to-wire status of the necessary congressional action.

Mr. Powell also addressed the monetary-policy outlook, and noted the debt-ceiling situation adds some uncertainty to the central bank's outlook. Most expect the Fed to begin allowing its \$4.5 trillion balance sheet to start shrinking next month. The Fed's expected next rate increase is less clear in the wake of recent weak inflation data.

"The time will be here soon" to start allowing the balance sheet to grow smaller, Mr. Powell said. As for interest rates, the officials said the Fed has time to plot its next move.

"The economy is strong; we are growing at more than 2%," he said, adding "the labor market is very strong." Still, given the state of the economy, "inflation is a little below target and it's kind of a mystery" as to why that is.

The current economic landscape "gives us in the ability to be patient," Mr. Powell said. "I think it's too soon to make decisions about particular meetings and whether to raise rates. But I think we have the ability if we keep getting strong growth and strong labor markets, to be a little bit patient. That's not a bad thing," he said.

Mr. Powell's CNBC interview capped a series of televised appearances by some of his colleagues. So far the only Fed comments on the economy and interest-rate policy have come from these interviews. Earlier Friday, Federal Reserve Chairwoman Janet Yellen delivered her keynote address on a need to preserve postcrisis financial sector overhauls. She didn't comment on the outlook for the economy or interest rates.

Two Fed officials, Esther George of the Kansas City Fed and Loretta Mester of the Cleveland Fed, both made the case for boosting rates again and neither was especially concerned about recent inflation weakness.

Meanwhile, Dallas Fed leader Robert Kaplan, who shares a voting role on the rate-setting Federal Open Market Committee with Mr. Powell, offered similar sentiments to the governor and said the Fed can be patient and gain confidence inflation is moving up toward its 2% rise target before boosting borrowing costs again.

““I’m not saying we won’t act by the end of the year. I think we have the ability to be patient here and see how these forces unfold before we make a judgment,” Mr. Kaplan said Thursday.

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