

ECONOMY

Powell Says Washington Will Need to Spend More to Battle Downturn

'Reversal of economic fortune has caused a level of pain that is hard to capture in words,' says Fed leader



Federal Reserve Chairman Jerome Powell, shown testifying before a U.S. Senate committee earlier this year.

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By [Nick Timiraos](#)

Updated May 13, 2020 6:03 pm ET

Federal Reserve Chairman Jerome Powell urged the White House and Congress to spend more money to ensure their initial response to the coronavirus-induced economic downturn isn't squandered.

"There is a growing sense that the recovery may come more slowly than we would like...and that may mean that it's necessary for us to do more," Mr. Powell said Wednesday during an online speech and question-and-answer session.

He warned that, with revenues depressed for longer, waves of business bankruptcies could follow, risking a much slower pace of improvement in the job market. "Additional fiscal support could be costly but worth it if it helps avoid long-term economic damage and leaves us with a stronger recovery," Mr. Powell said.

For example, if small businesses that were viable enterprises before the crisis fail, “we would lose more than just that business. We lose something more fundamental,” he said. “And it won’t be able to be replaced quickly.”

His remarks revealed concern about a slower, more difficult rebound than anticipated less than two months ago, when lawmakers shoveled short-term funds to households and businesses and set aside money for the Fed to launch trillion-dollar lending programs.

“The scope and speed of this downturn are without modern precedent, significantly worse than any recession since World War II,” Mr. Powell said.

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He said the central bank wasn’t considering plans to cut its benchmark federal-funds rate below zero after it slashed the rate to near zero in March.

Futures markets have implied investors see rising prospects of negative interest rates in 2021 even though the central bank’s rate-setting committee last October said it wouldn’t favor such a policy tool, which has had mixed results in Europe and Japan and which the Fed worries could hinder new bank lending.

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

Congress has appropriated nearly \$2.9 trillion so far to support households, businesses, health-care providers and state and local governments, or around 14% of national economic output, the “fastest and largest response for any postwar downturn,” said Mr. Powell. “It may not be the final chapter, given that the path ahead is both highly uncertain and subject to significant downside risks.”

The unemployment rate, which just three months ago sat near a 50-year low, jumped in April to its highest level since the Great Depression of the 1930s, wiping out a decade of job gains in a single month.

Mr. Powell said it was possible the jobless rate would peak and start to decline in the next few months but signaled concern that it could remain at an elevated level for a long time.

Early data revealed the downturn had hit households least able to bear it. Mr. Powell previewed a Fed survey to be released Thursday showing that among people who were working in February, nearly 40% of those households making less than \$40,000 a year had lost a job in March.

“This reversal of economic fortune has caused a level of pain that is hard to capture in words,” he said.

Mr. Powell also cited the unusual cause of the current downturn in gently pushing back against concerns that policy makers should limit relief to avoid bailing out individuals and businesses that took on too many risks.

Recessions have typically been caused by a sharp rise in oil prices, inflation or economic and financial imbalances that trigger an abrupt increase in interest rates. “The virus is the cause, not the usual suspects—something worth keeping in mind as we respond,” Mr. Powell said.

Efforts to secure new economic relief measures have been bogged down in Washington in recent days, with the Trump administration and congressional Republicans saying they want more time to see how the economy is responding to the relief measures already adopted and to steps by state and local leaders to allow more commerce to resume.

House Democrats on Tuesday released a roughly \$3 trillion bill to battle the health and economic effects of the coronavirus pandemic, staking out a position ahead of talks with Senate Republicans who are wary of additional spending. The House is expected to return Friday to

Washington to vote on the bill, but negotiations with Republicans aren't expected to start until later this month at the earliest.

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The Fed has responded aggressively by slashing rates and buying more than \$2 trillion in Treasury and mortgage securities to stabilize financial markets, and promising to lend trillions more, backed by more than \$200 billion in funds from the Treasury Department, to support businesses and state and local governments.

Mr. Powell walked through the unusual uncertainty facing economic policy makers, including how quickly and sustainably the coronavirus will be brought under control, the risk of new outbreaks as social-distancing measures ease and how quickly medical advances can restore confidence in households and businesses to spend and invest.

The Fed chairman warned of long-lasting damage that could follow. Deep and long recessions leave millions out of work for spells that could erode their skills and leave them in greater debt. Failures of thousands of small businesses would “destroy the life’s work and family legacy of many businesses and community leaders” and erase a main source of job creation when any recovery comes, he said.

While there is little political support in the U.S. for negative interest rates, President Trump said he thinks the Fed should use the tool for competitive reasons as long as other countries in Europe and Japan use them.

Mr. Trump appointed Mr. Powell to his job two years ago and was sharply critical of the Fed for not cutting rates more aggressively last year when the economy was healthier. He lauded the central bank leader Wednesday, even though he said he disagreed with Mr. Powell on negative interest rates.

“He’s done a very good job over the last couple of months,” said Mr. Trump. “I call him my ‘M.I.P.’—most improved player.”

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