Federal Reserve To Take Action To Lift Economy?

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WASHINGTON (AP) — The Federal Reserve is running out of options to try to boost a slumping economy and lower unemployment. So policymakers are expected to reach 50 years back into their playbook for their next move.

Most economists expect the Fed to announce a plan Wednesday to shift money in its $1.7 trillion portfolio out of short-term securities and into longer-term holdings.

The plan could lower Treasury yields further. Ultimately, it could reduce rates on mortgages and other consumer and business loans, too.

Fed Chairman Ben Bernanke is expected to advocate the move despite criticism from within the Fed and from Republican lawmakers and presidential candidates.

On Monday, the four highest-ranking Republicans in Congress sent Bernanke a letter cautioning the Fed against taking further steps to lower interest rates. Their letter suggested that lower rates could escalate the risk of high inflation.

The plan the Fed is considered most likely to unveil Wednesday has been dubbed "Operation Twist" and dates to the early 1960s. The Fed used a similar program then to "twist" long-term rates lower relative to short-term rates.

Expectations that the Fed will do so again, along with renewed fears of another recession, have led investors to buy up U.S. Treasurys. Treasury yields have dropped in response.

The yield on the 10-year Treasury note last week touched a historic low of 1.87 percent. On Tuesday, it finished slightly higher, 1.93 percent.

Once the Fed announced last month that it would expand its September meeting from one to two days, most economists have predicted that policymakers would unveil some new step. Chairman Ben Bernanke has said that the Fed is considering a range of options.

The central bank is under pressure to revive an economy that has limped along for more than two years since the recession officially ended. In the first six months of this year, the economy grew at an annual rate of just 0.7 percent. In August, the economy didn't add any jobs, and consumers didn't increase their spending on retail goods.

Most economists foresee growth of less than 2 percent for the entire year. Many say the odds of another recession are about one in three.

The Fed has offered its own bleak outlook. At its August meeting, it said the economy will likely struggle for at least two more years. As a result, it said it planned to keep short-term rates near record lows until mid-2013, as long as the economy remained weak.

The decision to do so highlighted a rift within the central bank. Three members dissented from the Fed's decision — the most negative votes in nearly two decades. The three, all regional Fed bank presidents, said the Fed's policies have increased the risk of inflation.

Bernanke has also faced criticism from congressional Republicans and GOP presidential candidates. Some have argued that the Fed's $600 billion bond-buying program, which ended in June, weakened the value of the dollar against other currencies and contributed to a spike in oil and commodity prices.

Texas Gov. Rick Perry, who is seeking the GOP nomination for president, went so far as to say Bernanke would be "almost treasonous" to launch more bond buying.

Bernanke has said that the Fed could consider another round of bond purchases. It could also provide more specific guidance on future interest rate moves.

Or it could reduce the 0.25 percent interest the Fed pays banks on their reserves at the central bank. Doing so would reduce the banks' incentive to keep money at the Fed and might make them more likely to lend.

But many analysts expect the Fed to opt for Operation Twist over those other actions.

President Barack Obama has unveiled a $447 billion jobs program made up of a combination of tax cuts and increased government spending. But the proposal faces an uncertain fate in Congress, where Republicans are focused on efforts to trim soaring budget deficits.