Obama reappoints Bernanke as Federal Reserve Chairman

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US President Barack Obama announced Tuesday morning that he would reappoint Ben Bernanke as Federal Reserve Chairman. The nomination is expected to receive the required Senate approval.

Obama, who made the announcement during his vacation in Massachusetts, praised Bernanke's conduct of monetary policy. According to Obama, Bernanke "approached a financial system on the verge of collapse with calm and wisdom; with bold action and outside-the-box thinking that has helped put the brakes on our economic free fall."

The position of Federal Reserve Chairman is arguably the most powerful economic position in the US. The "Fed chief" oversees the central banking system, and therefore exerts a degree of control over monetary policy, including the overall supply and availability of money, as well as money's cost or interest rate.

Bernanke was first appointed Federal Reserve Chairman by President George H.W. Bush in February 2006, a term set to expire next year. He had previously served as chairman of the president's Council of Economic Advisers, and before that, as a Federal Reserve Board governor.

There is little doubt that the Senate will approve Bernanke. Senate Banking Committee Chairman Christopher Dodd was quick to issue a supportive statement. "While I have had serious differences with the Federal Reserve over the past few years, I think reappointing Chairman Bernanke is probably the right choice," he said.

Bernanke's term expires on January 31, but Obama took the unconventional step of reappointing him five months early.

"I was surprised at the timing," said James L. Butkiewicz, professor of economics at the University of Delaware. "Presidents typically make such appointments closer to the fall; I was expecting something around September or October."

Pleasing the market appears to have motivated the early decision. "There's been a lot of speculation out there, and the president wanted to put it to rest," White House spokesman Bill Burton said.

Commentators observed that Obama's appointment aimed to assure Wall Street that the Fed's policy of vast dispensation to the big finance houses will continue. "Uncertainty is the enemy of markets," noted one economist.

Underscoring the power that the finance industry exerts over government, the *Wall Street Journal* wrote that Treasury Secretary Geithner "polled visiting chief executives about Mr. Bernanke, and heard mostly favorable comments."

"It's fair to say that Wall Street likes the decision," commented Francesco Guerrera in the *Financial Times'* Daily View. "The Wall Street Bankers I spoke to... feel that they can do business with a Federal Reserve headed by Ben Bernanke." Guerrera noted that Bernanke has "gained the trust of Wall Street," and that "the Financial Services industry feels that he has done a good job... mostly because he bailed them out with... billions of dollars of taxpayers' money."

Noting that "Bernanke has widespread support on Wall Street," the *Journal* reported that 42 out of 43 economists it surveyed—many working for banks and consultancies—favored his reappointment.

Bernanke is well liked on Wall Street for good reason. Working together with his Treasury Department counterparts Henry Paulson and Timothy Geithner, Bernanke facilitated the allocation of trillions of dollars in government bailout funds to the US banking system. He oversaw the taxpayer-funded bailout of Bear Stearns, American International Group (AIG), Fannie Mae and

Freddie Mac, and assisted in setting up the Treasury's Troubled Asset Relief Program and toxic asset buy up scheme.

On Monday, a US District Judge ordered that the Federal Reserve must identify the firms it has loaned hundreds of billions of dollars since the onset of the financial crisis last autumn using 11 separate lending programs. Bernanke and the Fed have refused on the grounds that revelation of the recipients' names would damage their market credibility, and in some cases initiate bank runs. The order was in response to a Freedom of Information Act suit filed by Bloomberg News. Bernanke will appeal the decision.

The major US stock indexes signaled their approval of Bernanke's appointment by closing up Tuesday, despite the fact that the US government announced a significant increase in the long-term federal deficit.

That a figure like Bernanke is reappointed and hailed as a steward of the economy demonstrates the bankruptcy of economic "policy making."

In fact, Bernanke bears a high degree of personal responsibility for the greatest economic crisis since the Great Depression. He was a governor of the Federal Reserve Board during the later tenure of Alan Greenspan, his predecessor. He supported Greenspan's lowering of interest rates through 2003 and 2004, which inflated asset prices for the benefit of Wall Street. Nor did Bernanke call for any change of course while he was chair of the National Economic Council during the height of the speculative frenzy of 2005, when banks were placing borrowed bets on securities based on worthless subprime mortgages.

A column published Wednesday in the *Financial Times* by Stephen Roach offered a more sober assessment of Bernanke's tenure. Roach wrote that, "in retrospect, the Fed's injection of excess liquidity in 2001-2003, which Mr Bernanke endorsed with fervour, played a key role in setting the stage for the lethal mix of property and credit bubbles" which erupted in the present crisis.

"Mr Bernanke is cut from the same market libertarian cloth that got the Fed into this mess," Roach wrote. "Steeped in the Greenspan credo that markets know better than regulators, Mr Bernanke was aligned with the prevailing Fed mindset that abrogated its regulatory authority in the era of excess. The derivatives' explosion, extreme leverage of regulated and shadow banks and excesses of mortgage lending were all flagrant abuses that both Mr Bernanke and Mr Greenspan could have said no to. But they did not. As a result, a complex and unstable system veered dangerously out of control."

Bernanke justified all of these processes as positive. In 2007, months before the full onset of the financial crisis, he infamously declared that "the dispersion of risk more broadly across the financial system has, thus far, increased the resilience of the system and the economy to shocks."

Bernanke's response to the crisis has been an immense escalation of Greenspan's policies, transforming them from recklessness to sheer robbery. Whereas Greenspan merely provided favorable credit conditions to the banks, Bernanke has funneled trillions of dollars directly into their coffers.

Obama's speech condemned for form's sake the very policies Bernanke represents. "We have already seen how lax enforcement and weak regulation can lead to enormous wealth for a few and enormous pain for everyone else," he said. "And that's why even though there is some resistance on Wall Street from those who prefer things the way they are, we will pass the reforms necessary to protect consumers, investors, and the entire financial system."

Speaking from Martha's Vineyard, where he may be paying as much as $30,000 a week to vacation, Obama declared, "we need Ben to continue the work he's doing, and that is why I've said that we cannot go back to an economy based on overleveraged banks, inflated profits, and maxed-out credit cards."

In fact, Bernanke's reappointment represents the exact opposite of any move to reign in the speculative excess of the financial system. It signals that there will be no regulation on specific financial instruments, including credit default swaps and derivatives.

Above all else, the reappointment is an indication that the Obama administration will continue the policy of allocating unlimited resources to the banks.