Fed Chief Bernanke testifies at confirmation hearing

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4 December 2009

Ben Bernanke, chairman of the US Federal Reserve, testified before the Senate Committee on Banking, Housing and Urban Affairs Thursday. The hearing was a prelude to a vote by the full Senate on Bernanke's nomination by President Barack Obama to serve a second term as the head of the US central bank. His confirmation is considered to be a foregone conclusion.

In his opening statement and in response to questions from the senators, Bernanke defended the policies of the Federal Reserve, which he claimed had prevented a second Great Depression and made possible the current economic "recovery." He also reiterated his opposition to increased congressional oversight of the operations of the Fed.

The testimony provided the opportunity for various senators, all implicated in the handover of taxpayer funds to the banks and related policies that have enabled the major banks to return to profitability and award their executives multimillion-dollar compensation packages, to criticize one or another of the Fed's actions.

Even these efforts to placate popular anger were, for the most part, muted. From the desultory and deferential questioning of virtually all of the senators, Democrats and Republicans alike, one would hardly suspect that tens of millions of Americans were suffering the loss of their jobs and devastating cuts in wages and income, and that millions more were losing their homes, their health insurance and their ability to properly feed their families, or that the Obama administration and the Fed were opposed to any serious measures to address the social disaster.

As every senator was well aware, Obama's decision last August to nominate Bernanke for a second term was a declaration that policies aimed at safeguarding the wealth of the American financial elite and imposing the burden of the financial crisis on the working class would be continued, and no serious reform of the banking system would be allowed.

Christopher Dodd, the Democratic chairman of the committee, set the tone for the hearing in his opening remarks. "Mr. Chairman," Dodd said, "you and the Federal Reserve deserve praise for your acumen and gratitude for your role in preventing a far worse outcome than we might have otherwise seen." He added, for good measure, "I believe you have done a very good job."

The only sharp questioning came from Jim Bunning of Kentucky, a right-wing Republican who has condemned the bank bailout as a "socialistic" subversion of free market principles. He attacked Bernanke for, among other things, engineering the bailout of American International Group, the giant insurance firm, in such a way as to fully cover at government expense the losses of AIG's major counterparty banks.

A significant exchange occurred when Senator Dodd, referring to recent articles by New York University economist Nouriel Roubini, asked about the danger that the Fed's policy of keeping interest rates at near zero and effectively printing billions of dollars was causing asset bubbles in the US and internationally and paving the way for another financial crash.

This policy has come under increasing attack from governments in Europe, Asia and Latin America, whose exports are suffering because of the falling value of the US dollar and whose economies are being destabilized by a flood of speculative capital, geared to the dollar's decline, which is driving up the prices of stocks, bonds and commodities.

Much of this speculative cash is flowing into so-called "emerging economies," creating unsustainable asset bubbles. The default last week of Dubai, which triggered a near-panic on global markets, is but a foretaste of financial eruptions and sovereign defaults likely to result from the explosive growth of credit and risky investments fuelled by the Fed's monetary policies.

Bernanke denied that the Fed's policies were causing assets bubbles in the US—despite a 50 percent rise on US stock exchanges over the past nine months and a surge in high-risk, highly leveraged investments. More astonishing was his assertion that asset bubbles outside of the US were not the concern of the Fed.

Bernanke declared, "US monetary policy is intended to address problems in the United States; other countries have their own tools... It's really not the United States' responsibility to address misalignments in other countries."

This was tantamount to a declaration that the United States will pursue an aggressive nationalist policy regardless the cost to its global competitors. Bernanke's statement sums up the drive by the US financial elite to offload its crisis onto its major international rivals. This policy sets the stage for an eruption of international trade war and competitive currency devaluations, ultimately leading to a new and even greater global economic breakdown.