In testimony before House and Senate

US Federal Reserve chairman calls for austerity plan

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In two days of testimony before the banking committees of the House of Representatives and Senate this week, Federal Reserve Board Chairman Ben Bernanke called for the Obama administration and Congress to agree on a plan to sharply reduce the US budget deficit over the next decade.

Bernanke delivered the Federal Reserve's "Semiannual Monetary Policy Report to Congress" to the House Financial Services Committee on Wednesday and the Senate Banking Committee on Thursday. Both his opening statements and the ensuing discussions with committee members, Democrats no less than Republicans, reflected the concerns of the banks and finance houses, with only the most perfunctory references to the desperate plight facing tens of millions of Americans confronted with the worst jobs crisis since the Great Depression.

Under questioning from Republican legislators, Bernanke said the current budget projections of the Obama administration were "unsustainable" and implied that major cuts in social programs and taxes on consumption would be required.

He said the structural deficit for 2013 to 2020 would have to be cut from estimated levels of 4 to 7 percent of gross domestic product to below 3 percent.

To underscore the urgency of adopting an austerity program, Bernanke said at several points that failure to do so could have a negative impact on short-term economic developments, in the form of rising interest rates and a serious decline in the value of the dollar.

He told the House Financial Services Committee on Wednesday, "One risk that I've described is that if there's a long-term loss of confidence in the long-term ability of the government to balance its affairs, that could raise interest rates today, which would have a drag effect on the economy. Another possibility, which I think is relatively unlikely, but it's certainly possible, is that if there's a loss of confidence in the government's ability to achieve fiscal stability…the dollar could decline, which would have a potential inflationary impact on the economy."

In response to a question from Senator David Vitter (Republican from Louisiana), who asked how quickly the current level of US budget deficits would "become a major problem in terms of the economy," Bernanke said, "It could become a problem tomorrow if bond markets are not persuaded that Congress is serious about bringing down the deficit over time."

Bernanke made a point in his opening remarks of reassuring nervous financial markets, shaken by the Fed's decision last week to raise its largely symbolic discount rate, that the move did not signal an intention to push forward plans for an eventual hike in the key federal funds rate, which broadly impacts short-term interest rates across the economy.

Banks and big investors want the Fed to keep the federal funds rate—the interest on overnight inter-bank loans—at the current level of zero to 0.25 percent as long as possible. The extraordinarily low rate, which has been maintained since the height of the financial crisis in December 2008, provides a virtually unlimited supply of cheap credit to major banks and finance houses, enabling them to make huge profits by speculating on stocks, bonds, currencies and commodities.

At the same time, the financial elite wishes to avoid having to pay for the inevitable consequences of debt and asset bubbles, skyrocketing government deficits, and the bankrupting of the state as a result of the bailout of the banks. It wants to place the full burden on the working class through historic reductions in basic social programs such as Medicare and Social Security, new taxes on consumption, long-term high unemployment and continuous wage-cutting.

On both counts, Bernanke provided assurances to Wall Street, with virtually no opposition from the congressmen and senators.

Bernanke pointedly repeated in his opening remarks the mantra that the Fed has used since December 2008 to signal that it intends to hold the federal funds rate at near-zero. He twice stated that the Fed expects to maintain "exceptionally low levels of the federal funds rate for an extended period," and added that last week's hike in the discount rate "should not be interpreted as signaling any change in the outlook for monetary policy.…"

There were no suggestions from either Bernanke or the

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committee members that any serious measures to create jobs, such as a public works program, should be adopted, or any limits imposed on bank profits and pay. This is despite Bernanke's acknowledgement in his statement that while financial markets have "stabilized," the job market "remains quite weak, with the unemployment rate near 10 percent and job openings scarce." The Fed chairman pointed, in particular, to the "increasing incidence of long-term unemployment," noting that "more than 40 percent of the unemployed have been out of work six months or more, nearly doubled the share of a year ago."

Bernanke went on say the unemployment rate would decline "only slowly," remaining as high as 7.5 percent at the end of 2012.

The social crisis was underscored by the release of government reports on Wednesday and Thursday showing that while Wall Street profits are soaring, the economic situation facing the American people is worsening. On Wednesday, the Commerce Department reported that sales of newly built homes fell in January by 11.2 percent from December to the lowest total in almost 50 years.

On Thursday, the Labor Department reported that initial claims for unemployment benefits rose by 22,000 to 496,000 for the week ending February 20, the sixth weekly increase in the last two months. Continuing claims also rose, with the four-week average hitting 4.6 million.

Also on Wednesday, the Federal Deposit Insurance Corporation (FDIC) reported that US banks reduced lending in 2009 at the sharpest pace since 1942. This demonstrates the class interests that underlay the multitrillion-dollar government bailout of the banks, which Bernanke played a key role in engineering. When the financial crisis erupted in the fall of 2008, politicians—including then-presidential candidate Barack Obama—promised that bailing out the financial industry would revive lending to consumers and businesses and prevent a sharp rise in unemployment.

The bailout passed by the Democratic-controlled Congress imposed no strings on the banks that received taxpayer dollars, resulting in the opposite from what was said at the time to justify plundering the Treasury to cover the bad debts of the financial elite. The big banks have hoarded their profits, using them to pay record bonuses and speculate on the financial markets rather than increasing lending.

In his report, Bernanke declared that the Fed "strongly supports Congress' ongoing efforts to achieve comprehensive financial reform" and is "taking the lead in ensuring that compensation structures at banking organizations provide appropriate incentives without encouraging excessive risk-taking." On both counts, the Fed chairman was being disingenuous.

Neither the Fed, nor the Obama administration, nor Congress is proposing any serious reform of the banking system. A Democratic bill passed last year by the House of Representatives would impose only token restrictions on derivatives trading, while establishing a permanent mechanism for the government to use public funds to undergird the financial markets by winding down "too-big-to-fail" financial firms threatened with collapse.

The House bill is stalled in the Senate as a result of a massive lobbying effort, including the injection of millions of dollars into the campaign coffers of politicians of both parties, by the banking industry, which opposes certain of its provisions, including the creation of a toothless consumer financial protection agency.

On Wednesday, the day of Bernanke's appearance before the House Financial Services Committee, the *Wall Street Journal* reported that the Democratic chairman of the Senate Banking Committee, Christopher Dodd of Connecticut, had agreed with Republican committee members to oppose a proposal announced in January by Obama to bar depository banks from using their own money to speculate on risky assets.

The ban on so-called "proprietary trading," which Obama dubbed the "Volcker rule," after its main proponent, former Fed chairman Paul Volcker, was fiercely opposed by Wall Street because it would have partially reinstated the wall between commercial and investment banking erected by Depression-era bank reforms and repealed under the Clinton administration.

As for ensuring "appropriate incentives" for bank executives and traders, the New York State comptroller on Tuesday issued a report estimating that Wall Street bonuses rose 17 percent in 2009 to $20.3 billion and overall average compensation rose 27 percent. The comptroller further reported that New York Stock Exchange broker-dealer firms are on track to net more than $55 billion in profits for all of 2009—nearly three times greater than the previous all-time record.

No politician from either party at either of the hearings challenged Bernanke's statements on bank regulatory reform or bankers' pay. As *MarketWatch* reported Wednesday, "The tone of the House hearing was overwhelmingly cordial toward Bernanke." At the Senate hearing on Thursday, committee chairman Dodd thanked Bernanke for saving the banking system and told the Fed chairman he was "impressed by your leadership."

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