Fed chairman reassures Wall Street on flow of cheap credit

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In his semi-annual report to Congress, US Federal Reserve Chairman Ben Bernanke on Wednesday sought to reassure Wall Street that he remains committed to the Fed's near-zero interest rate policy and will not curtail the central bank's asset purchasing program earlier than expected.

Appearing before the House Financial Services Committee, Bernanke stressed that the Federal Reserve's plan to rein in its bond-buying program later this year or next was not on a "preset course." Since last December, in the third round of the Fed's "quantitative easing" program, the US central bank has been pumping $85 billion a month into the financial markets, fueling a record-breaking rise in stock prices and Wall Street profits.

The Fed chairman will testify Thursday before the Senate Banking Committee.

"We're going to be responding to the data," Bernanke told the House committee, adding that if economic figures "don't meet the kinds of expectations we have about where the economy's going, then we would delay that process or potentially increase purchases for a time."

"With unemployment still high and declining only gradually, and with inflation running below the [Federal Reserve's] longer-run objective, a highly accommodative monetary policy will remain appropriate for the foreseeable future," Bernanke said in his prepared remarks.

Bernanke's testimony Wednesday and a speech he gave last week before the National Bureau of Economic Research were aimed at calming US and global financial and currency markets, which became highly volatile and suffered major sell-offs in June following the Fed chief's suggestions of a coming pullback in the flow of cheap credit to the banks.

Bernanke told the House Financial Services Committee that the stock and bond sell-off was "unwelcome," but he suggested it had the positive effect of diminishing "excessively risky or leveraged positions." This was an allusion to growing fears of an implosion of the asset bubble fueled by the Fed's money-printing operation.

"Clearly what happened in the markets after June was well beyond what they intended, and they're trying to pull it back," Julia Coronado, a former Federal Reserve staff economist, told Bloomberg News.

Bond prices slumped sharply in May and June and bond yields rose in anticipation of a cutback in the flow of cheap credit from the Fed. The interest rate on ten-year US Treasury notes shot up by a percentage point. But Bernanke's remarks Wednesday sent the yields on ten-year Treasury notes down by 0.4 percent from the start of the day, to 2.49 percent, compared to a yield of 2.69 percent a week ago. "I think the markets are beginning to understand our message and, you know, the volatility has obviously moderated," Bernanke told the committee.

The Fed chairman placed emphasis on the depressed state of the real economy, in large part to boost the financial markets, which generally react negatively to signs of more rapid economic growth out of fear of an earlier-than-expected pullback in quantitative easing.

"The unemployment rate remains well above its longer-run normal level and rates of underemployment and long-term unemployment are still much too high," he told the committee. He also stressed that the continuation of low inflation levels in the United States would prompt the Fed to keep interest rates extremely low.

Bernanke's second and final term as Federal Reserve chairman is set to end in January, and the members of the House Financial Services Committee took the opportunity to lavish praise on him—the Democrats, if anything, more slavishly than the Republicans. Nearly every panel member's remarks began with effusive praise for Bernanke, prompting the *Wall Street Journal* to note, "The hearing … generated more praise than we could tally." The newspaper speculated that Bernanke "might have been blushing underneath that beard."

On the few occasions when a committee member asked Bernanke a pointed question, the Fed chief merely sidestepped it. When one panel member asked if the Federal Reserve's policies increased social inequality, Bernanke replied, "No, I don't think so. It maintains employment." With that, the questioner moved on.

Some of the Republicans took the opportunity to denounce business and bank regulations, others to grandstand about "unsustainable" government spending. The Democrats, aside from scattered and cynical references to "Main Street," used the opportunity of Bernanke's appearance to praise the Obama administration's handling of the economy and the financial crisis.

The hearing reflected the bipartisan support that exists for the multi-trillion-dollar bailout of the American financial elite over which Bernanke has presided, and which is being paid for through the destruction of workers' jobs, wages, pensions and basic social programs upon which millions of working people depend.