## Services rendered: Ben Bernanke awarded Nobel Prize for economics

## Nick Beams 12 October 2022

When US president Barack Obama was awarded the Nobel peace prize in 2009, after less than eight months in office, for his "extraordinary efforts to strengthen international diplomacy and cooperation between peoples" there was something of an incredulous response from people around the world.

Those instinctive reactions were soundly based because when he left office in 2017 the US had been at war for the entire eight years of his presidency.

It seems that in awarding the Nobel prize for economics to former Fed chair Ben Bernanke, along with two others, the Nobel committee has decided on a repeat performance.

In his term at the Fed, Bernanke was the architect of the bank and corporate bailouts of 2008 and initiated the program of quantitative easing through which the Fed and other central banks poured trillions of dollars into financial markets, sending stock markets to record highs, facilitating an orgy of speculation, the like of which has never been seen, while widening social inequality to unprecedented levels.

The Nobel prizes for peace and economics are always shaped by political considerations. In this case Bernanke is being rewarded for services rendered to the financial oligarchy.

But there is more to it than that. The committee cannot simply hand out the prize (worth almost \$900,000) with a thank you note. It must provide some justification for its decision by citing a piece of research conducted by the recipient.

In Bernanke's case it was a paper he wrote in 1983 on the effect of bank collapses in the US in turning what began as a recession into the Great Depression of the 1930s. Announcing the award to Bernanke, Stockholm University economist John Hassler said: "At the time, this was a break with the current view. Banks fail, but it was thought that was a consequence of crisis, rather than a cause of crisis."

It must be said this is less a comment on the worth of Bernanke's work than it is on the state of what passes for economic science.

Bernanke's paper contained some interesting details on the course of the crisis in the early 1930s and the impact of bank failures, but it was hardly path-breaking. It provided an academic account of what was apparent to any economically literate observer at the time, and since then, that the collapse of banks—there were hundreds of failures in the US—had an effect in constricting the flow of credit, leading to a further economic contraction.

Bernanke's research on the course of the Great Depression was not conducted to disclose the underlying contradictions in the economy which had produced such devastation.

He never seriously even thought to pose the question of how it was that the economy of the richest country in the world, abounding in natural resources, with a powerful and skilled labour force and in possession of great advances in science and industrial technology, had disintegrated. Bourgeois economics had long before given up any scientific pursuit of such issues, lest it called into question the very foundations of the profit system.

Bernanke's research in 1983 was to lead him to conclusions and prescriptions that were put into practice during his term as Fed chair in response to the crisis of 2008.

His views were clearly outlined in a speech he gave on the 90th birthday of the right-wing "free market" monetary economist Milton Friedman, the intellectual godfather of the economic suppression of the Chilean working class following the 1973 Pinochet coup.

Bernanke's speech honouring Friedman centred on *A Monetary History of the United States*, the book he co-authored with Anna Schwartz.

Describing this work as "impressive in its erudition and development of historical details," he said Friedman and Schwartz "made the case that the economic collapse of 1929–33 was the product of the nation's monetary mechanism gone wrong."

He placed emphasis in the speech on the conclusions by the two authors that the Fed in the early 1930s had failed to manage banking panics, the task for which it had been created in 1913. The problem was largely doctrinal in that it adhered to the "liquidationist" thesis of the treasury secretary under president Hoover, Andrew Mellon, that weak banks had to be weeded out as the prerequisite for a recovery.

Bernanke even expressed his agreement with the conclusion of Friedman and Schwartz that the premature death of America's most powerful central banker Benjamin Strong, the governor of the New York Federal Reserve in 1928 (equivalent to the position of Fed chair today), was a contributing factor to the extent and depth of the Depression.

The conclusion of his speech left no doubt as to the direction of his policy when he became Fed chair four years later after serving from 2002 on its board of governors. The best thing central bankers could do avoid crises was to provide the economy in Friedman's words a "stable monetary background."

"I would like to say to Milton and Anna: Regarding the Great Depression. You're right, we did it. We're very sorry. But thanks to you, we won't do it again."

Before moving to an examination of the consequences of the Bernanke doctrine in practice, we should note the same criteria that applied to his academic work was also displayed in the awarding of the Nobel prize to the other two winners, Douglas Diamond and Philip Dybvig, for their analysis of the role of banks in the economy and in financial crises.

This writer is not familiar with their work. But according to Hassler,

as he announced the award, it was based on a 1983 paper that explained how banks play a crucial role as the intermediaries between savers and business that want to invest.

According to Hassler, their paper showed that in taking short-term deposits and making longer loans banks were "inherently vulnerable." Their research may have been valuable. It may also remain, in the words of well-known Harvard economist Kenneth Rogoff, "one of the most clear and beautiful papers in modern economics." But it is hardly path breaking.

The contradiction between borrowing short and lending long and its role in financial crises has been known at least since the rise of modern banking from the middle of the 19th century.

The case of Bernanke is unique because he was able to put into practice the conclusions he reached from his academic research.

The *Wall Street Journal* declared that "historians now credit Mr Bernanke for averting an economic calamity by quickly devising aggressive new monetary policies—rock-bottom interest rates, loans to banks and controversial bond-buying programs—during and after a financial crisis that started in 2007 and spanned two years."

The historical record tells a different story. For all his supposed insights, Bernanke had no idea the crisis of 2008 was brewing—the result of the orgy of speculation that had been developing since his predecessor Alan Greenspan stepped in to back Wall Street in the wake of the October 19, 1987 crash, the largest single day fall in history.

Prior to becoming Fed chair, Bernanke was the author of the thesis of the "Great Moderation"—the claim that the inflation dragon had been slayed and the central bank, through its adjustment of interest rates, could bring stability to financial markets.

In 2007, when problems began to emerge in the sub-prime housing market Bernanke ruled out any wider effects.

"We believe the effect of the troubles in the sub-prime sector on the broader housing markets will be limited and we do not expect significant spill-overs from the sub-prime market to the rest of the economy or to the financial system," he said in March of that year.

But the crisis ripped through the financial system, just a year and a half later, because the methods used to reap profits in the sub-prime market, often of a criminal character, were employed used in all areas of the financial system. Bernanke, supposedly the chief guardian of financial stability, with a vast array of data and computers analysis available to him and his staff, either did not comprehend its significance or chose to ignore it.

When the crisis erupted, the Fed rushed into action to save Wall Street as close to 10 million workers lost their jobs and 3.1 million lost their homes.

The abatement of the crisis led to what has been characterised as the longest period of growth in American history. But it was growth for the stock markets and the financial speculators not the mass of the population.

Wall Street soared and company profits rose, while inequality deepened, spending on education and other social services was cut, real wages stagnated and workers struggled to get back on their feet, sometimes taking years, after being made unemployed in the aftermath of the crisis.

And Bernanke's rescue operation for Wall Street was to have major and deadly consequences.

In 2020, when the COVID-19 pandemic struck, the US government refused to undertake meaningful public health measures to eliminate it, above all because it feared this would result in the collapse of the speculative bubble induced by the quantitative easing measures pioneered by Bernanke. This led to the death of more than one million people in the US and through the extension of this inaction worldwide to the death of 20 million.

And following his stepping down from the position of Fed chair, what insights did he provide on the origins of the crisis?

In a paper prepared for its tenth anniversary he presented a completely circular analysis, writing that the major factor through which "the crisis led to a recession was a severe financial panic," caused by "fragilities" in the financial system which "resulted in a panic and a credit crunch." But why was the financial system fragile? Because it was subject to panic.

In a telling admission of the utter bankruptcy of bourgeois economics, Bernanke admitted in the same paper that prior to the crisis the economic model used by the Fed "provided little guidance on how to think about credit market disruptions."

In response to the COVID pandemic and the market collapse of 2020 as it began, the Fed, under the chairmanship of Jerome Powell, further developed the methods of Bernanke, expanding the Fed's balance sheet from around \$4 trillion to just under \$9 trillion virtually overnight, leading to even greater Wall Street speculation.

The result is that, as the Fed and other central banks lift interest rates, seeking to induce a recession to halt the upsurge of the working class in response to inflation, the global financial system is on the brink another financial meltdown.

Asked about the present situation at a news conference following the Nobel prize announcement, Bernanke said: "We're certainly not in anything like the dire straits we were in 14 years ago."

In fact, the situation is potentially worse. The world is moving into recession, inflation is at a 40-year high, interest rates on the rise and the financial system, as the latest report from the International Monetary Fund makes clear, is riven with vulnerabilities. These are the result of the policies set in train by Bernanke.

Obama received the peace prize as he steered the US ever more directly on the road to war. Bernanke has received the economics prize as the measures he initiated have laid the conditions for a collapse going even beyond that of 2008.



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