

Backgrounder on Bernanke Reappointment and Record



Americans for Limited Government

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On August 25th, the Obama Administration announced the reappointment of Federal Reserve Chairman Ben Bernanke. At the announcement, Barack Obama said, “Part of that foundation [for financial recovery] has to be a financial regulatory system that ensures we never face a crisis like this again.” He would have the Senate believe that under Chairman Bernanke’s watch, the Federal Reserve will be addressing the root causes of the failure in the housing, mortgage-backed securities, and derivatives trades.

It will not, because the Federal Reserve, as it is currently administered under law and in practice, accommodates the growth of these types of sectors that have led to the perpetual boom-to-bust economic cycles. This has been seen with the technology bubble in the 1990’s, the housing bubble in the 2000’s, the oil and commodities bubbles of 2008, the treasuries bubble, etc. By keeping interest rates too low for too long, by “priming the pump” with easy money and cheap credit, the American economy has experienced some of the most unsustainable market booms in history.

Chairman Bernanke is already sowing the seeds for yet another asset bubble with interest rates near zero and [more than \\$7.76 trillion in bailouts committed, lent, or disbursed by the Fed in the financial rescue](#). This includes some \$300 billion for the first treasuries purchases by the Fed since the beginning of the Cold War and more than \$1.6 trillion committed to purchase GSE debt and mortgage-backed securities from Fannie Mae and Freddie Mac. Importantly, [the Fed has expanded its balance sheet to some \\$2.06 trillion since the crisis hit in 2007](#).

This is nothing new. According to the True Money Supply index from the Ludwig Von Mises Institute, [the money supply rose from about \\$1.787 trillion at the end of 1990 to about \\$5.268 trillion by the end of 2007](#), representing a 295 percent increase. For comparative purposes, in that same period, [gold rose from \\$386.20 an ounce to \\$695.39](#), a 180 percent increase, [oil rose from \\$23.19 a barrel to \\$64.20](#), a 277 percent increase, and the national debt rose from \$3.23 trillion to \$9 trillion, a 278 percent increase.

Mortgage debt grew at a pace that dwarfs even that of the actual money supply. [In 1990, outstanding mortgage debt held was \\$3.805 trillion](#). By the end of 2007, [total mortgage holdings rose to \\$14.568 trillion](#), a staggering 383 percent jump. Fannie and Freddie [sold over \\$5 trillion of mortgage-backed securities all over the world on the secondary market](#), and now we know that they are worthless.

The easy money by the Fed accommodated all of these increases, and more easy money will eventually lead to more unsustainable booms and busts.

Americans for Limited Government agrees with Obama’s statement in part, that the government’s approach to the crisis should be to ensure that a crisis like this never takes place again.

But he has introduced a false narrative. The failures seen in 2007 and 2008 were not caused by “deregulation.” Much of the problems were caused by the lethal combination of easy money accommodating the spike in housing that artificially inflated demand for housing, the securities trade as led primarily by Fannie Mae and Freddie Mac that was able fuel on the fire, and the derivatives trade led by AIG. Overleveraging by firms was a natural outgrowth of these phenomena, as investors naturally sought to profit off the bubbles.

Importantly, the capital for these home purchases, for the most part, came directly out of the Federal Reserve System via mortgage loans. As more loans and securities were sold, yet more were originated in an unsustainable spree. Once demand for housing collapsed when it simply became unaffordable for most Americans, the inherent weaknesses were priced into the market. The waves of foreclosures began. Home values plummeted. So did securities. AIG could not cover all the losses with their insurance program. What happened next was predictable: the bailout spree.

The fact is, though, without the easy money introduced into the financial system by the Federal Reserve in the first place, these events could not have happened. They would have been impossible.

It is this true root cause that must be addressed, because its consequences are so plainly visible to American families who have watched their pensions disintegrate overnight, the values of their homes rise unsustainably only to leave them with mortgages that now cannot be paid, their jobs evaporating at a pace not seen in decades, and their purchasing power destroyed through the ongoing policy of monetary inflation as the cost of living has consistently outpaced the growth of wages.

Unfortunately, under Chairman Bernanke’s watch, one of the chief causes of these market distortions and subsequent corrections—the boom-to-bust cycles—is being compounded. In fact, one of the major problems that has faced the financial, currency, housing, and other markets has been transparency in the monetary and financial systems.

The markets cannot properly price in the actual systemic risks that “priming the pump” by the Fed leads to. Because, much of the monetary easing by the Federal Reserve, the loans, its dealings with foreign central banks, etc. are all a secret. The Senate is not even privy to the full extent of the decisions that are made.

At the reappointment announcement, Obama said, “[W]e will continue to maintain a strong and independent Federal Reserve.” This is precisely the problem. A “strong and independent” Federal Reserve caused these problems, and now the Obama Administration intends to promote the central bank to be the “systemic risk” regulator. It cannot even regulate the systemic risk the current monetary and financial systems pose that it caused. And as a result it will prove equally unable to “control” the unintended consequences of its own policies again.

The Federal Reserve must be crystal clear, and now there is a unique opportunity with the reappointment of Chairman Bernanke coinciding with a new push for Fed transparency. On August 24th, [the Southern District Court of New York granted Bloomberg News' Freedom of Information Act \(FOIA\) request to the Federal Reserve Board of Governors](#) to produce the details of some \$2 trillion in emergency loans that were made by the nation's central bank in 2008. The court ruled that the Board must comply with the request and produce the relevant documents to Bloomberg. These include who received the \$2 trillion of loans, the terms under which they were received, and what collateral was taken by the Reserve branches in exchange for the loans.

To date, the Board has refused, and withheld much of the records—some 231 pages of documents—claiming certain exemptions of the Act. They argued that documents in possession of branches of the Federal Reserve, including the New York Federal Reserve, were not applicable to the request as they were not agencies of the government.

District Judge Loretta Preska ordered that the Board had 5 business days to produce the 231 pages of documents. And until September 14th to search for records relevant to the request that constitute “Records of the Board” held by the New York Federal Reserve. It should comply immediately. And Chairman Bernanke's reappointment must be conditioned on transparency in the Federal Reserve System, or else none of the root causes of the financial crisis will have been addressed. It will happen again.

The Fed's secrecy is actually a matter of law, as you are all aware. Under current law, the GAO, [according to 31 USCA §714](#), cannot audit and exempts from public oversight of the Federal Reserve:

- (1) transactions for or with a foreign central bank, government of a foreign country, or nonprivate international financing organization;*
- (2) deliberations, decisions, or actions on monetary policy matters, including discount window operations, reserves of member banks, securities credit, interest on deposits, open market operations;*
- (3) transactions made under the direction of the Federal Open Market Committee; or*
- (4) a part of a discussion or communication among or between members of the Board of Governors and officers and employees of the Federal Reserve System related to items.*

And in light of the ruling, Bloomberg would actually have access to more information on the Fed's emergency lending facilities than the GAO or yourselves in Congress. That is, if the Fed even complies with the ruling.

For the foregoing reasons, the Senate must condition the confirmation of Chairman Bernanke to another term as Fed Chairman to compliance with the New York Southern District Court's ruling, and a new era of transparency at the Federal Reserve and its branches. Without transparency, the markets will continue to prove unable to properly price in the systemic risk that the Federal Reserve System creates to threaten the nation's economy.