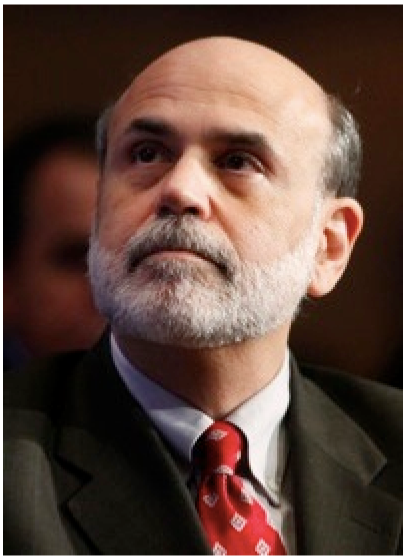
Bernanke: Lax Oversight Recession's Cause



Regulatory failures and not low interest rates were responsible for the housing bubble, implosion and current recession, Federal Reserve Chairman Ben Bernanke asserted on Sunday.

"Stronger regulation and supervision aimed at problems with underwriting practices and lender's risk management would have been…more effective [in] constraining the housing bubble [rather] than a general increase in interest rates," Bernanke told the American Economic Association. Bernanke, while awaiting Senate confirmation for another term as Fed Chairman, defended recent and continuing charges that the Fed contributed significantly to the current financial crisis by keeping interest rates too low for too long. Bernanke claimed:

> When historical relationships are taken into account, it is difficult to ascribe the house-price bubble either to monetary policy or to the broader macroeconomic environment….
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> Monetary policy during that period — though certainly accommodative — does not appear to have been inappropriate, given the state of the economy and policymakers' medium-term objectives.

More than low interest rates were involved, Bernanke said, holding that the increase in home prices was the result of artificially reduced monthly payments and a reduction of lending standards. These brought people into the market who could only afford to keep their homes if prices continued to rise. "The best response to the housing bubble would have been regulatory, not monetary," he concluded.

In December the House passed a bill that would increase oversight on big financial firms, complex financial products, and create a new federal consumer lending regulatory agency. That same bill, however, would allow Congress to order audits of the Federal Reserve, while a Senate bill would strip the Fed of much of its authority to supervise.

According to Thomas Woods in his recent book *Meltdown*, Bernanke is following a familiar pattern of blaming the current recession "on anyone and everyone but the government itself. And of course, that same government failure is being used to justify further increases in government power. The very people who devised the policies that produced the mess are now posing as the wise public servants who will show us the way out."

In the chapter entitled "The Elephant in the Living Room," Woods says,

> The current crisis was caused not by the free market but by the government's intervention in the market. This is not special pleading on behalf of the market, but the clear verdict of both theory and experience.

> Fannie Mae and Freddie Mac, government-sponsored enterprises (GSEs) that enjoy various government privileges alongside their special tax and regulatory breaks, were able to draw far more resources into the housing sector than would have been possible on the free market.?
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> For years, congressional Democrats pretended all was well at Fannie and Freddie, and that all the warnings were coming from mean people who didn't want the poor to have a chance to own their own homes. (Numerous Democrats really did say that, believe it or not.) Republicans have since used the Democrats' sorry record as a bludgeon against them, but their own record on spending, debt, and government intervention is nothing to be proud of. Republicans by and large have also supported the endless march of government bailouts.
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> Almost nobody in Washington, and precious few elsewhere, has been willing to question the greatest single government intervention in the economy, and the institution whose fingerprints are all over our current mess: America's central bank, the Federal Reserve System.
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> The Fed's policy of intervening in the economy to push interest rates lower than the market would have set them was the *single greatest contributor* [emphasis added] to the crisis that continues to unfold before us.

In its review of Meltdown, the Ludwig von Mises Institute says that "our politicians' ham-handed attempts to fix the problems they themselves created will only make things much worse." The author points out how government intervention in the economy – from the Democratic hobby-horse called Fannie Mae to affirmative action programs like the Community Redevelopment Act – actually caused the housing bubble. And he traces this most recent boom-and-bust – and all such booms and busts of the past century – back to the Federal Reserve System.

??Ron Paul, House Representative from Texas, asks, in his introduction to Meltdown,

> Who's being ignored during this crisis? The free-market economists of the Austrian School of economic thought, *the very people who predicted not only the Great Depression, but also the calamity we're dealing with today.* [emphasis in the original] The good news is that Austrian School economists are gaining more acceptance every day, and have a greater chance of influencing our future than they've had for a long time. I'm told that Google searches for "Austrian economics" are off the charts.

Paul also asks, "What are they going to do when the entitlement crisis hits and the federal government is suddenly on the hook for tens of trillions of dollars? If they try to print their way out of that one, they'll destroy the dollar for good, if they haven't done so already with all these bailouts. The resources aren't there. It's time we recognized this like adults and adjusted our behavior accordingly. The more we intervene and the more we prop up economic zombies, the worse off we'll be. But the sooner we understand what has happened, assess our economic situation honestly, and rebuild our economy on a sound foundation, the sooner our fortunes will be restored."??

Paul has been standing up for the Constitution and against the Federal Reserve System for years, sometimes being the only one opposed to damaging legislation 434-1.

According to the *Los Angeles Times*, Paul's positions on the Fed "are gaining a wider audience [and are] also helping to shape a potentially historic battle over economic policy … a struggle that will affect everything including jobs, growth and the nation's place in the global economy."

Paul has been surprised and pleased about the response his stand against the Fed has generated. For instance, Paul was astonished when he addressed students at the University of Michigan during his 2008 presidential bid and they began to chant “End the Fed”, and burned dollar bills (Federal Reserve Notes).??

More and more people are seeing past the posturing of individuals like Chairman Bernanke in their search for understanding of and answers to the present financial crisis.