Fed Chairman Admits His Economic Model Is Japanese Economic Stagnation

Federal Reserve Chairman Ben Bernanke said in an October 1 speech that his U.S. central bank would copy Japanese economic policy to get the U.S. economy moving, despite the fact that the Japanese economy hasn't seen significant economic growth since the 1980s.

In that speech before the Economic Club of Indiana, Bernanke said he would keep suppressing interest rates in the United States over the long-term and purchasing long-term debt instruments, just as Japan has done. Bernanke, referring to suppression of U.S. interest rates in the domestic economy since the "great recession" began, noted:

> Once at zero, the short-term interest rate could not be cut further, so our traditional policy tool for dealing with economic weakness was no longer available. Yet, with unemployment soaring, the economy and job market clearly needed more support. Central banks around the world found themselves in a similar predicament. We asked ourselves, "What do we do now?"
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> To answer this question, we could draw on the experience of Japan, where short-term interest rates have been near zero for many years.

The Japanese "experience" has been no significant economic growth since 1990, racking up the largest national government debt as a percentage of its economy of any advanced economy (230 percent of GDP, more than twice the U.S. figure), and several downgrades in their national credit rating in recent years.

Bernanke said he would also follow Japanese central bank policy on suppressing long-term interest rates by the purchase of debt and mortgage-backed securities, noting that the Fed had followed this policy since 2008, claiming tangible results:

> When the Fed first announced purchases of mortgage-backed securities in late 2008, 30-year mortgage interest rates averaged a little above 6 percent; today they average about 3-1/2 percent. Lower mortgage rates are one reason for the improvement we have been seeing in the housing market....
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> The Fed's purchases reduce the amount of longer-term securities held by investors and put downward pressure on the interest rates on those securities. That downward pressure transmits to a wide range of interest rates that individuals and businesses pay.

Bernanke called for continued deficit spending, which Japan has continued throughout its two decades of no substantial economic growth, albeit Bernanke couched his recommendations in economic fuzzytalk: “They must find ways to put the federal budget on a sustainable path, but not so abruptly as to endanger the economic recovery in the near term.” Of the so-called “fiscal cliff” – much dreaded on Capitol Hill – Bernanke added fuel to the fire “if that were allowed to occur, it would likely throw the economy back into recession.”

Bernanke also rebuffed claims that the Fed was “monetizing the debt” with the latest bout of “quantitative easing” — the purchase of $40 billion per month of federal and mortgage-backed securities into the indefinite future. “No, that’s not what is happening, and that will not happen. Monetizing the debt means using money creation as a permanent source of financing for government spending. In contrast, we are acquiring Treasury securities on the open market and only on a temporary basis, with the goal of supporting the economic recovery through lower interest rates.”

Of course, the Fed’s recent policy of purchasing $40 billion of long-term debt instruments per month was deliberately announced with no end date, i.e., open-ended, making Bernanke’s claim it was a “temporary” policy a lie.

Bernanke also revealed some concern in the Indianapolis, Indiana, speech over a renewed push for congressional oversight of the Fed in the face of unprecedented Federal Reserve policies. “The American people have a right to know how the Federal Reserve is carrying out its responsibilities and how we are using taxpayer resources,” Bernanke said, but he added that he would continue to oppose further congressional investigations into the Federal Reserve’s secret bailout policies, such as the secret $16 trillion Federal Reserve bailout of elite banks during the height of the 2008-09 recession. Bernanke’s comments must be seen in light of the move led by Congressman Ron Paul to create an independent audit of the Federal Reserve Bank by Congress’ Office of the Inspector General.