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What About the 99 Percent?

By: **Arnold Kling**

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I would never have guessed that lowering this particular borrowing rate would be a significant policy move. But the opinion of the stock markets is that it is a major development, perhaps a decisive move.

The action leaves some important matters unchanged. No government has brought its budget under control. No political impasse has been broken. No bank has become better capitalized. No wages within the euro zone have adjusted to address their misalignment. And yet the markets are in a state of euphoria. It is like watching Ben Bernanke play Peter Pan, the European banks as an ailing Tinkerbell, and the stock market as the audience, fervently proclaiming "We believe in fairies!"

Walter Bagehot's classic line about central banking is that in a crisis you must be willing to "Lend freely, at a penalty rate." The Fed's actions are consistent with the first half, but not the second. If the banks need our money so badly, then why shouldn't the Fed make them pay a premium for it?

It seems that the one thing we can always count on the Federal Reserve to do is lend money at low interest rates to big banks when large investors lose confidence in those banks. In the circles in which the Fed's top officials travel, it is understood that such action is the highest form of public service.

This raises a number of questions. Are the Fed's actions in the interest of the 99 percent of us who do not own many shares of European banks? Are the Fed's actions within its Congressional mandate? Can the Fed's far-reaching autonomy be brought within the framework of a Constitutional democracy? Does Congress care?

Am I being too cynical, or are others not cynical enough?