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Bernanke's Style, Record In Spotlight At Hearing

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WASHINGTON - Although Federal Reserve Board Chairman Ben Bernanke came into office more than three years ago intending to make the central bank less politically entrenched, he now presides over a central bank that has arguably never faced a greater threat from Congress.

Senate Banking Committee Chairman Chris Dodd wants to narrow the Fed's mission to monetary policy while the House is weighing legislation to force the central bank to disclose information that could cripple its independence.

Capitol Hill's focus on the Fed has raised the stakes for Bernanke's confirmation hearing Thursday where he will both defend the unprecedented steps the Fed has taken during the crisis and argue that Congress should not strip his agency of authority.

"The irony is that he has wielded the most power of any Fed chairman," said Chris Low, the chief economist at First Horizon National Corp.'s FTN Financial. "Because of that, we might see the most dramatic removal of power from the Fed in the history of the organization."

In interviews with current and former Fed officials, analysts and academics, many said the task of defending the Fed could not fall to a better man than Bernanke. He has been unflappable during the crisis, explaining the rationale for allowing Lehman Brothers to fail, and dodging loaded questions from lawmakers with a straight face.

He has also been creative, using his academic study of the Depression to craft a response to this crisis that was designed to avoid repeating the experience of the 1930s.

"He brought with him knowledge of the Depression and a background in what can happen when financial markets are disrupted and when financial intermediation breaks down," Don Kohn, the Fed's vice chairman, said in an interview. "This was not some starry-eyed academic coming in here. He had a very good sense of what it's like to make policy in the real world but he brings a rigor to it."

Bernanke has also taken pains to avoid intruding into a multitude of political debates that his predecessor, Alan Greenspan, freely engaged in. While Greenspan weighed in on everything from deficits to health care, Bernanke has declined to become involved - a move that may now serve him well.

"The major thing that we all have to worry about right now is the independence of the Fed," said Kurt Karl, the senior U.S. economist for Swiss Reinsurance Co. "The last thing we need the Fed doing is stepping into areas that are really not the purview of the Fed."

At least part of Bernanke's goal is to put less emphasis on the chairman of the Fed as opposed to the institution itself.

"The Federal Reserve does not equal the chairman," Bernanke said in July. "One of the things I wanted to do when I became chairman was to depersonalize the Fed to an extent. It's not all on my shoulders."

But his reluctance to speak has even extended into areas arguably within the Fed's scope. While Greenspan championed the privatization of Fannie Mae and Freddie Mac, Bernanke told the House Financial Services Committee last month only

that the future of the government-sponsored enterprises needs to be confronted soon.

"In the near future we need to have a plan on Fannie and Freddie," Bernanke said. "The GSEs need to be addressed in the near term not just for systemic reasons but because we have a lot of uncertainty about housing."

He struck a similar chord when pressed to take a position on the Consumer Financial Protection Agency envisioned by the Obama administration. Bernanke would not say whether Congress should strip the Fed of its consumer protection powers and vest them in the new agency.

"That's Congress' judgment about whether the Federal Reserve could be sufficiently focused, and I think we are very competent," he said at the same hearing.

To date, Bernanke has largely taken the same approach to Dodd's bill, which would strip the Fed of its supervisory powers over banks, and a measure from Rep. Ron Paul that would require the central bank to submit to audits of monetary policy by the Government Accountability Office.

Bernanke has frequently met in private with lawmakers to explain how the Paul amendment would hurt the central bank's political independence, and cautiously objected in public. "I don't think the American people want Congress running monetary policy," he said in July.

But so far that strategy is not working. The House Financial Services Committee approved the provision this month with the support of all Republicans and 15 Democrats.

To be sure, many said the vote was less a rebuke of Bernanke than an acknowledgement of populist suspicion of the central bank's activities. "Congress ignored him not because of his approach to his relationship with the Hill but more because of the times we're in," said Brian Gardner, an analyst at KBW Inc.'s Keefe, Bruyette and Woods Inc. "It's not a rejection of the Bernanke approach. Institutions that represent concentrations of wealth and power are highly criticized and the Fed falls into that group."

Others said the situation would have been even worse for the Fed if Bernanke had criticized the provision more aggressively in public appearances.

"When it's a political issue like GAO audits, Bernanke doesn't want to anger individual lawmakers," Low said.

Although Bernanke is ultimately expected to win confirmation, his hearing Thursday is likely to be contentious. In addition to facing questions from Dodd on why the Fed should keep its bank supervision responsibilities - something Bernanke has said is vital to the central bank's ability to conduct monetary policy - he must also defend the bailouts of firms like American International Group Inc. and a slew of liquidity programs opened during the past year.

No matter how well Bernanke handles the hearing, he is likely to face more opposition than any Fed chairman in recent memory.

Mark Calabria, the director of financial regulation studies at the Cato Institute and a former Republican Senate Banking Committee staff member, predicted that votes against Bernanke's confirmation will reach double digits on the Senate floor.

"This will be a proxy of anger about the bailouts, the Merrill Lynch-Bank of America deal and the broader question of how you can be an arms-length regulator," Calabria said.

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