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# A Few Questions For Fed Chief Bernanke

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On Dec. 3 the U.S. Senate Banking Committee meets to hold a hearing on the nomination of Ben Bernanke to another term as chair of the Federal Reserve Board.

Although Bernanke is almost assured confirmation by the Banking Committee and the full Senate, this is perhaps the only opportunity for Congress, and the American public, to get a fuller accounting of both Bernanke's role in creating the financial crisis and responding to it. The Committee would be negligent in its responsibilities if it fails to address the following questions:

What role does Mr. Bernanke see monetary policy having played in creating the housing bubble?

Does he believe the loose monetary policy earlier this decade played any role in driving up housing prices?

Should the Fed only focus on "debt deflation" while ignoring the rest of corporate and household balance sheets? Is deflation always a negative?

In talking about the economy and future actions by the Fed, Bernanke has almost exclusively focused on "slack" in the economy, either in the labor market or in industrial capacity. Such a view ignores Milton Friedman's observation that inflation is "always and everywhere a monetary phenomenon."

The position that we cannot have inflation while there's slack in the labor market is clearly disproved by the experience of the 1970s. Bernanke's views on the role of the money supply and liquidity in creating inflation also should be vetted by Congress.

Chairman Bernanke has repeatedly changed his story as to why Lehman Bros. was allowed to fail.

First it was the absence of political support for bailouts, then a claimed absence of legal authority, then an argument that Lehman did not possess any creditworthy assets to lend against, and finally that market participants had sufficient time to prepare and protect themselves from Lehman's failure.

All these claims have serious holes.

Before being re-confirmed, the American public has a right to know Bernanke's rationale for letting Lehman fail.

One of the basic tenets of sound regulation, exercised in the public interest, is that regulators remain at "arm's length" from the entities they regulate.

As defined by Black's Law Dictionary, "arm's length" relates to "dealings between two parties who are not related or not on close terms and who are presumed to have roughly equal bargaining power; not involving a confidential relationship."

It is difficult to look at Bernanke's behavior in Bank of America's purchase of Merrill Lynch and feel as if the Fed acted simply as an "arm's length" regulator. Despite the commendable efforts of the House Oversight Committee, we still lack a full and clear accounting of Bernanke's role in the Merrill Lynch deal.

To have any confidence in his ability to objectively and dispassionately carry out his responsibilities as a bank regulator, Senate Banking needs to fill in these gaps.

While Bernanke made real efforts at improving the Fed's communications with Congress and the public before the financial crisis, these efforts paled in comparison to the opaqueness of Fed actions during the crisis.

Even now, it is hard to look at the Fed's decisions and see any consistency or even much logic. It all still appears very ad hoc. Bernanke owes the American public a better explanation of the Fed's decision-making during the crisis.

The fact that Rep. Ron Paul's bill to audit the Fed currently has 313 co-sponsors is a clear indication that Congress is unhappy with the Fed's lack of transparency.

Bernanke's lobbying efforts against the Paul bill have had little traction. All of which is unsurprising given the dire warnings from the Fed if the names of AIG counterparties were released, and then once those names were released, they had no discernible impact on the market.

When it comes to transparency, the simple truth is that the Fed lacks credibility on the issue. Bernanke should use his confirmation hearing as an opportunity to rebuild that credibility.

Bernanke has argued against the Paul bill on the grounds that it could diminish the Fed's independence. The fact is however, that Bernanke's own actions have undermined the Fed's independence to a far greater degree than anything an audit would do.

He has acted essentially as a full member of both the Obama and Bush administrations. Going forward, he will be under tremendous pressure from the Obama administration to maintain loose monetary policy.

Perhaps the most important question Bernanke should answer is: How will he rebuild and maintain an independent Fed?

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