

Wall Street's Love Affair with Ben Bernanke

By [Mike Whitney](#)

Global Research, July 21, 2009

21 July 2009

Region: [USA](#)

Theme: [Global Economy](#)

A careful reading of Federal Reserve chairman Ben Bernanke's op-ed in Tuesday's Wall Street Journal, shows that Bernanke thinks the economy is in a deflationary spiral that will last for some time. Ben Bernanke: "The depth and breadth of the global recession has required a highly accommodative monetary policy. Since the onset of the financial crisis nearly two years ago, the Federal Reserve has reduced the interest-rate target for overnight lending between banks (the federal-funds rate) nearly to zero. We have also greatly expanded the size of the Fed's balance sheet through purchases of longer-term securities and through targeted lending programs aimed at restarting the flow of credit...My colleagues and I believe that accommodative policies will likely be warranted for an extended period." No talk of recovery here; just a continuation of the same radical policies that were adopted after the collapse of Lehman Bros. The only sign of improvement has been in the stock market, where Bernanke's liquidity injections have jolted equities back to life. The S&P 500 is up 40% since March. Conditions in the broader economy have continued to deteriorate as unemployment rises, the states find it harder to balance their budgets, and the real estate bubble (commercial and residential) continues to unwind. The Fed's policies are Bernanke's way of saying, "The states are not the country. The banks are the country." The public seems slow to grasp this message.

Bernanke's op-ed is a public relations ploy intended to soften the effects of his visit to Capital Hill today. Congress wants to know the Fed chief's "exit strategy" for soaking up all the money he's created and avoiding inflation. Bernanke again: "The exit strategy is closely tied to the management of the Federal Reserve balance sheet. When the Fed makes loans or acquires securities, the funds enter the banking system and ultimately appear in the reserve accounts held at the Fed by banks and other depository institutions. These reserve balances now total about \$800 billion, much more than normal. And given the current economic conditions, banks have generally held their reserves as balances at the Fed." This is the core issue. The Fed has built up bank reserves by accepting (mainly) mortgage-backed garbage (MBS) that is worth only pennies on the dollar. Bernanke assumes that investors will eventually recognize their mistake and begin to purchase these toxic assets at a price that won't bankrupt the banking system. It's a complete hoax and everyone knows it. In essence, Bernanke is saying that he is right and the market is wrong, which is why he continues to conceal the fact that he provided full-value loans for collateral which the banks will never be able to repay. The costs, of course, will eventually be shifted onto the taxpayer.

Bernanke knows that the country is in a Depression and that inflation won't be a problem for years to come. It's all politics. Bank lending is way off and the shadow banking system—which provided over 40% of consumer credit via securitization—is still on life-support. At the same time, the savings rate has spiked to 6.9%—a 15 year high—as

consumers cut back on spending to service their debt-load, and try to make up for the \$14 trillion in lost household wealth since the crisis began. If the banks aren't lending and consumers aren't spending, inflation is impossible.

Bernanke's zero-percent interest rates and lending facilities have been a total bust. The velocity of money (how fast money changes hands) has stopped. Retail is down 9% year-over-year. Imports/exports down 20%. Rail freight and shipping at historic lows. Travel, manufacturing, hotels, restaurants are all in the tank. The economy is flat-lining. Only Goldman and JPM have done well in this environment, and that's because the White House is a Goldman-annex. The only Bernanke policy that's worked so far has been flooding the market with money, which has sent equities into orbit while the real economy continues to twist in the wind. Here's how former hedge fund manager Andy Kessler summed it up last week in the Wall Street Journal: "By buying U.S. Treasuries and mortgages to increase the monetary base by \$1 trillion, Fed Chairman Ben Bernanke didn't put money directly into the stock market but he didn't have to. With nowhere else to go, except maybe commodities, inflows into the stock market have been on a tear. Stock and bond funds saw net inflows of close to \$150 billion since January. The dollars he cranked out didn't go into the hard economy, but instead into tradable assets. In other words, Ben Bernanke has been the market." (Andy Kessler, "The Bernanke Market" Wall Street Journal) Bernanke's quantitative easing (QE) has pumped up bank stocks enough so that Geithner won't have to grovel to Congress for another TARP bailout. The banks now have access to the capital markets and can withstand the stormy downgrades ahead. Thus, the nagging problem of toxic assets has been solved (temporarily) just as Bernanke had planned. Bernanke will continue to monetize the debt (by purchasing more US Treasuries and MBS) until securitization is restored and there are signs of life in the failed wholesale credit-system. That's the real objective; to keep credit expansion in the hands of privately-owned financial institutions that are beyond the reach of government regulation. The Fed's so-called mandate of "full employment and price stability" is pure malarkey. The Fed's job is to provide an endless stream of cheap capital to Wall Street. By that standard, Bernanke has performed his task admirably.

The original source of this article is Global Research
Copyright © [Mike Whitney](#), Global Research, 2009

[Comment on Global Research Articles on our Facebook page](#)

[Become a Member of Global Research](#)

Articles by: [Mike Whitney](#)

Disclaimer: The contents of this article are of sole responsibility of the author(s). The Centre for Research on Globalization will not be responsible for any inaccurate or incorrect statement in this article. The Centre of Research on Globalization grants permission to cross-post Global Research articles on community internet sites as long as the source and copyright are acknowledged together with a hyperlink to the original Global Research article. For publication of Global Research articles in print or other forms including commercial internet sites, contact: publications@globalresearch.ca

www.globalresearch.ca contains copyrighted material the use of which has not always been specifically authorized by the copyright owner. We are making such material available to our readers under the provisions of "fair use" in an effort to advance a better understanding of political, economic and social issues. The material on this site is distributed without profit to those who have expressed a prior interest in receiving it for research and educational purposes. If you wish to use copyrighted

material for purposes other than "fair use" you must request permission from the copyright owner.

For media inquiries: publications@globalresearch.ca