THE BROOKINGS INSTITUTION

CENTRAL BANKING AFTER THE GREAT RECESSION: LESSONS LEARNED AND CHALLENGES AHEAD

A DISCUSSION WITH
FEDERAL RESERVE CHAIRMAN BEN BERNANKE
ON THE FED'S 100th ANNIVERSARY

(EXCERPT)

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Introduction:

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A CONVERSATION: THE FED YESTERDAY, TODAY AND TOMORROW:

Featured Speaker:

BEN BERNANKE
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Moderator:

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P R O C E E D I N G S

MR. HUTCHINS: There we go. Good morning. May I have your attention, please. It's my pleasure and privilege to introduce Liaquat Ahamed and Ben Bernanke. At a recent meeting of the American Economics Association, an economist equipped that Mr. Bernanke didn't want the first sentence of his Wikipedia page to be Ben Bernanke, he studied the Great Depression and then caused the next one. (Laughter) So he made sure that was not the case.

As we all know Ben's term as Chairman of the Federal Reserve ends in just a couple of weeks after eight of the most tumultuous years in American economic history. Though he started at the end of the Great Moderation, I think the equivalent of setting sail on a calm sunny afternoon, he soon inherited the wind, a typhoon really and had to grapple with the panic of '07, the Great Recession and an underwhelming recovery. He did this with skill, calm, and creativity. And in my view, quite literally saved us.

Despite the massive deleveraging of the last few years, we are still deeply in debt to Ben Bernanke. (Laughter) I thought you economists would like that joke. On a personal note, through my service on the Board of the Federal Reserve Bank of New York, I have also come to understand how much Ben is admired and regarded with great fondness by his colleagues and staff at the bank. He is a truly remarkable human being.

The conversation with Chairman Bernanke will be led by Liaquat, my fellow trustee here at Brookings and my friend. Liaquat is a student of the Great

Depression like the Chairman, author of the Pulitzer Prize-winning book, The Lords of Finance: The Bankers Who Broke the World. I recommend everybody go out on Amazon after this and buy it in hard cover. It's a portrait of the Central Bankers of the '20s and '30s here and abroad and particularly highlights the mistakes made by Ben's predecessors, which led in no small measure to the Great Depression.

I am sure we have a fascinating discussion ahead of us. As my wife says to our kids and quite often to me, time to put on your listening ears. (Applause)

MR. AHAMED: So let me start by thanking the Chairman for coming here on behalf of Brookings and the Hutchins Center for coming and having this conversation. It's a great privilege.

So the way you handled the financial crisis in 2008 will clearly go down as one of your signature achievements. So let me start with that.

MR. BERNANKE: Uh-huh.

MR. AHAMED: You've said somewhere that the playbook that you relied on was essentially given by a British economist in the 1860s, Walter Bagehot. And his dictum was that in a financial crisis, the Central Bank should lend unlimited amounts to solvent institutions against good collateral at a penalty rate. How useful in practice was that rule in guiding you?

MR. BERNANKE: It was excellent advice. This was the advice that's been used by Central Banks going back to at least the 1700s. When you have a market or a financial system that is short of liquidity and there's a lack of confidence, a panic; then the Central Bank is the lender of last resort. It's the institution that can provide the cash liquidity to calm the panic and to make sure that depositors and other short-term lenders are able to get their money.

In the context of the crisis of 2008, the main difference was that the financial system that we have today obviously looked very different in its details, if not in its conceptual structure, from what Walter Bagehot saw in the 19th century. And so the challenge for us at the Fed was to adapt Bagehot's advice to the context of a modern financial system. So for example, instead of having retail depositors lining out, you know, standing in line out the doors as was the case in the 1907 panic, for example, in the United States; we had instead runs by wholesale short-term lenders like repo lenders or commercial-paper lenders, and we had to find ways to essentially provide liquidity to stop those runs.

So it was a different institutional context, but very much an approach that was entirely consistent I think with Bagehot's recommendations.

MR. AHAMED: Now you also, rather than lending only to institutions, you intervened in markets.

MR. BERNANKE: Uh-huh.

MR. AHAMED: Is there a sort of similarly pithy dictum, I don't know, a Bernanke rule that you can come up with about when the Fed should intervene in markets and when it shouldn't?

MR. BERNANKE: Well, the -- if we're talking about the crisis period, I would say that all the interventions we did fit under the Bagehot heading. For example, the commercial-paper facility that we set up was essentially designed to prevent a run on this particular form of financing. So it was a different institutional structure, but it was, again, essentially the same Bagehot rule being applied in a different institutional context.

Now we have done other interventions, if you will, with our asset-purchase program, for example, but that I would call the monetary policy part of our response. So again, while the analogies between it's a wonder life and people running on the thrift are not always immediate obvious, there was, in fact, a very close parallel throughout the whole response.

MR. AHAMED: Now the crisis began in August of 2007 --

MR. BERNANKE: Uh-huh.

MR. AHAMED: -- when there was actually a problem with the French Money Market, a fund run by a French bank. And if you trace through it, it actually continued until the spring of 2009. So that was a long time. And despite major interventions, you know, after Lehman, despite TARP; you still had a run on Citibank, you still had a run on Bank of America. Why did it take so long to get it under control?

MR. BERNANKE: Well, it was not a continuous crisis of equal intensity for that entire period that you described. In the fall of 2007, we were seeing obviously a lot of stress in markets, but at that point, it was not obvious whether this was going to be the start of something bigger or whether it was something more comparable, say, to some of the disruptions we've see in the '90s, for example, around the Russian debt crisis, for example.

There was a critical point that occurred in March of 2008 with the Bear Stearns episode, and that was a period of very intense stress in the repo markets and in some other parts of the financial markets. After Bear Stearns, financial conditions calmed fairly notably for a while. Obviously we remained very alert. We were beginning to, the Federal Reserve was beginning to supervise the investment banks together with the SEC over the summer. So we were not complacent about the crisis being over, but conditions were certainly more stable after Bear Stearns for a number of months. And there, you know, was at least some hope given that, for example, that the Bush Administration was undertaking a fiscal expansionary policy, there was some hope that things might calm; but again, we were very attentive.

I think the real intense phase, I think everyone would agree, began with the takeover, the putting into conservatorship of Fannie and Freddie, in, I think, early September of 2008. And that was followed through this very intense period of Lehman and AIG, the TARP, et cetera. So I think that very intense period from, say, September 1st until the latter part of the year, that was the period of greatest stress and greatest risk.

And the combination of our lending programs and the injection of government capital, the fiscal aspect of that, brought the crisis down considerably by the end of the year. Of course into the next year we were still working to stabilize the system with our stress testing, addressing some concerns of specific institutions with our monetary policy and the like, but I don't think it's fair to characterize the crisis as being something that was continuous, you know, for a year and a half. Rather, there were periods of ebbs and flows.

And the most intense period in September and October, I think we actually got that under control reasonably quickly with the combination of the Fed's liquidity provision, the TARP, the fiscal injections, plus actions by the FDIC and other agencies as well.

MR. AHAMED: Now Hank Paulson describes having sleepless nights at that time, you know, agonizing that he would go down in history as the Herbert Hoover of this episode.

MR. BERNANKE: Uh-huh.

MR. AHAMED: And I think Tim Geithner once described you as the Buddha of Central Banks, which (Laughter) implies a certain level of enlightened detachment. (Laughter) Now did you have sleepless nights?

MR. BERNANKE: Oh, sure, absolutely. But it's my nature, I think, to kind of focus on the problem. You know, and I was so absorbed in what was happening and trying to find response to it that I wasn't really in that kind of reflective mode. I mean, later on, you know, I was kind of like, you know, if you're in a car wreck or something, you're mostly involved in trying to avoid going off the bridge; and then later on you say, oh, my God, you know. (Laughter)

But during the crisis, as I said, there were some very intense periods during the September, October 2008 period. Not only were we, you know, trying to address the crisis, we were trying to deal with our international colleagues around the world. This was a global crisis. And then of course we were, you know, constantly testifying or otherwise trying to keep the world informed about what was happening, so it was a very intense period. But again, I was, you know, just focused on the task.

MR. AHAMED: Now your partnership with Secretary Paulson and then Secretary Geithner was clearly central to solving the crisis.

MR. BERNANKE: Uh-huh.

MR. AHAMED: Now to an outsider it's remarkable what a united front you presented, but you did have different backgrounds, different personalities, you represented different arms of government. And so some degree there's a natural tension. The Central Bank does liquidity.

MR. BERNANKE: Uh-huh.

MR. AHAMED: The Treasury does solvency. But the distinction is not always very clear. Were there any big disagreements?

MR. BERNANKE: So first of all, you're absolutely right that we had a very strong partnership; Paulson, Geithner, and me. We are different people, different backgrounds. And I think we were actually quite complementary in various ways. And we certainly all recognized the seriousness of the situation and the need for corporation among the Treasury, the Fed, and other agencies. And that was the overwhelming imperative, to work together to try to solve the problem.

There were certainly points where, you know, we were trying to address the financial condition of AIG or some other politically very difficult problem, and there was a little bit of discussion about whether or not the Fed or the Treasury should take the lead on that particular area. But in the end, Paulson, in particular, who during the heat of the 2008 crisis, was the person who was most exposed to the political winds, because as Secretary of the Treasury, he represented the administration and he had to go to

Congress and so on. In the end he always did what had to be done.

And I think that was the reason that we worked together. The combination of our complementary backgrounds and skills and the fact that we shared a common purpose. There were many people in the world, economists among them, who thought that it's perfectly safe to let the financial companies go down. We heard that even at Jackson Hole a few days before the crisis intensified in September of 2008. The three of us never, we were all very much in agreement that that was not a wise thing to do, and we were committed to doing that.

Let me just also say, though, that while the interventions with large failing firms are the part of the story that gets the most attention, the most controversial, much of the good work that was done was a little bit more under the radar and had to do with our actions to try to stabilize key financial markets like the money market funds, the commercial paper market, the asset-backed securities market, our work to strengthen the commercial banking system and so on, to work with our partners to do currency swaps with 14 other Central Banks. There was a whole range of things that we did that didn't involve firm interventions, which were less visible, but probably occupied a much greater portion of our time and which were at least as important if not more important in terms of stabilizing the system.

MR. AHAMED: Now I think in David Wessel's book there's a scene where he has you sort of pushing Secretary Paulson to go to Congress. So if the Treasury had gone to Congress to get money earlier, could we have avoided Lehman?

MR. BERNANKE: No, for the following reason, which is that even with

Lehman, even with the stock market tumbling, as you know it took two votes of the House of Representatives to get the TARP approved. I remember a Senator telling me, when we were trying to go around and explain to congressman why we needed the TARP and why it was critical to the stability of the American economy, and he said, well, I have to tell you, he said, my calls on this from my constituents are 50/50. It's 50 percent no and 50 percent hell no. (Laughter)

So it was a very unpopular, as you know, very unpopular policy. As Barney Frank has put it, it's one of the most successful government policies ever, and nevertheless of course it's also one of the most unpopular. There was no chance, there was no chance that we could have gotten a TARP-type program before it was becoming evident how bad the situation was going to be, so that was the catch-22 we were in basically. But it was also clear to me at that point in mid September, that the ad hoc interventions on which we had relied, given that we didn't really have a framework for resolving these firms, had reached their limit.

And we had no choice but to involve Congress, and I was very clear about that.

MR. AHAMED: So let me talk a little bit about that political backlash. I mean, I go ahead the impression that Dodd-Frank, for example, while giving the Fed more power to prevent a crisis, limits the ability to, of the Fed to intervene in the way that it did in 2008. Can you tell us more about that? Are you worried about the, you know, what the consequences of that are?

MR. BERNANKE: No. We were supportive of those changes were totally comfortable. What we're talking about here is the so-called 13(3) provisions which allow the Fed to make emergency loans to individuals, partnerships, and corporations under certain conditions, unusual and exigent circumstances as it was called. And we used those tools for the first time, essentially since the Great Depression, to, you know, to support the collective effort of the government to prevent the collapse of some critical firms as well as doing broad-based lending in a number of key markets, as I was describing before.

The former, the interventions for firms, again, happened because there was no framework. There was nothing but the standard Bankruptcy Code. And the trouble with the Bankruptcy Code in this context is that what bankruptcy does is first and foremost is defend the interest of the creditors, which is a great thing, but there's no recognition in the Bankruptcy Code that you also have to worry about the stability of the financial system. So in any case we didn't have anything like that in 2008.

So the Dodd-Frank Act, Title 2, created an orderly liquidation authority, which provided a much more structured and flexible approach to addressing a failing critical firm in the middle of a crisis. So we don't need that authority anymore. The -- we have tools now, which we didn't have to address individual firms. At the same time the 13(3) rules in Dodd-Frank do permit, and we just wrote the implementing regulation for this, they do permit a so-called broad-based program so that our actions with regard to the commercial paper, asset-backed securities, and some of the other markets that we provided liquidity to presumably would still be legitimate, still be legal as would the, say, the primary dealer facility, which was open to all primary dealers.

So the key things that we did would still be possible, although we have to get the Secretary of Treasury's permission now. And we're perfectly happy that there are alternative ways to deal with a failing firm and that the Fed doesn't have to intervene in that way we did in 2008.

MR. AHAMED: Now we all heard from Don Kohn this morning talking about the sort of, the whole political environment. I mean, are you worried about the political backlash against the Fed, the consequences, both for monetary policy and how future Fed decision makers will be able to respond in a crisis?

MR. BERNANKE: Well, first of all, it wasn't really a surprise. This is another place where history helps you. If you think about the 1930s, we had exactly, as you well know, we had exactly the same kind of reaction. In fact, it was much more intense.

MR. AHAMED: Well, no, those guys did the wrong thing; and you did the right thing. (Laughter)

MR. BERNANKE: Well, it wasn't so much even the Fed, it was -- because the Fed did keep its head down in the '30s unfortunately -- but the government in general, you know, there were marches on Washington and strong populist movements and serious talk about revolution even among some parts of the population. And of course so Roosevelt, what he argued was that the strong actions he was taking were about saving capitalism essentially. And of course, analogously to the report that we had on the crisis in Congress this time, there was the Pecora Commission and all of that has happened before, and it's not surprising in a sense that you would get this populist type of reaction.

I guess the only thing, one comment I would make is that the alternative of not doing what -- the Fed was created to address financial panics. And its independence and its ability to act quickly is a key feature of what the Fed is about. And if we had not done that and if the financial system had imploded and the economy had plunged into even a deeper depression, I think the populist reaction would have been pretty bad as well. So we were kind of stuck one way or the other. So we did the right thing, I hope. We tried to do the right thing. And there certainly has been pushback.

We hope that as the economy improves and as we tell our story and as more information comes out about, you know, why we did what we did and so on, you know, that people will appreciate and understand that what we did was necessary, that it was in the interest of the broader public, it was a Main Street set of actions aimed at helping the average American. And as time passes and that becomes clearer, I'm hopeful that these political concerns will wane.

That being said, the reason the Fed is independent is so that it can take emergency actions or any other actions, policy actions independent of short-run political pressures. And the day that we allow those short-run political pressures to make us do something which is not the right thing for the economy, then our independence at that point is effectively gone.

MR. AHAMED: So I could spend, I could keep on going about the financial crisis, but let's move to monetary policy. I mean, in many ways you had a playbook for how to deal with the financial crisis.

MR. BERNANKE: Uh-huh.

MR. AHAMED: The monetary policy post the financial crisis in reviving the economy -- you know, we heard from John Williams this morning that, you know, essentially this was, you know, there was very little, there was a little bit of theory, some of which you had helped develop --

MR. BERNANKE: Uh-huh.

MR. AHAMED: -- but we were really operating blind. So in devising QE and all these other unconventional monetary policies, were you pretty confident that the theory would work or that whatever you -- going into it?

MR. BERNANKE: Well, the problem with QE is it works in practice, but it doesn't work in theory. That's --

MR. AHAMED: Yeah, right. (Laughter) And the other way about forward guidance probably.

MR. BERNANKE: Right. Well, I'm -- so I think it's a bit of an exaggeration to say that this was all de novo, that it was all unprecedented. Obviously we had the case of Japan, and they had taken some of these actions. We had those experiences. We learned some things from the '30s and so on. I think of QE as being a basic monetarist principle which is that these are some of the ideas that Friedman and -- Schwartz and Friedman talked about, which is that the way you can stimulate the economy is by swapping liquid assets for less liquid assets. That's essentially what an open market operation is.

On the side of forward guidance, et cetera, people like Michael Woodford and Paul Krugman and others had talked about those issues and how that would work. So we were relying on research. I think just let me say parenthetically, I think that monetary policy in general is an extraordinary example of how thinking within a policy institution and in the academic world can, you know, mutually benefit each other. And we made use of the ideas that we got from academia and also ideas that came from our own experiments.

The basic problem was that interest rates, the short-term interest rate was effectively zero as of December 2008, that any analysis would suggest that that was not enough economic monetary support to achieve a sufficiently robust recovery. We needed additional stimulus. And these were the two methods with some experimentation that we came to. But again, I, and I do think, by the way, I do think that they both have been helpful and we've learned a lot; but I would disagree that these are, you know, completely novel ideas.

A number of different Central Banks have tried various forms of forward guidance and the Federal Reserve talked even before the crisis about considerable period and those kinds of things as well. So what we were doing was trying to build on what others had already done.

MR. AHAMED: Now, QE was much more controversial than sort of the lender of last resort type of things that you did, and you had to tell with a fair number of skeptics, including within the FOMC. How did you persuade so many people to go along with it?

MR. BERNANKE: I'm not sure I would agree with you on that -- which one was more controversial, I think they both had elements of controversy.

When we were looking for additional measures that we could take, again, to provide additional accommodation and to help stabilize financial markets, you know, the biggest measures, you know, some of the biggest measurers we took were in late 2008, and then in March 2009 when we put in a very big program. And that program, the beginning of it, was very broadly supported in the FOMC. It was felt that that intervention would both provide very much needed monetary policy support, and in addition it would add to the liquidity of markets in general which were still under great stress at that time. So the beginning of it was certainly a broadly supported idea.

Subsequent to that, you know, that gave us the opportunity to see what the effects were and to do analysis and so on. And the staff analysis and pretty large literature that is out there, I think John's bibliography had some of that in there, has suggested that while there are difference in views about how effective QE is the great majority of studies have found that there is -- at least somewhat effective. Given that we were, you know, at the limits of what conventional monetary policy could do we felt that we needed to take additional steps. And for the most part it had been supported.

A number of the folks who have, you know, who have voted against it or have been critical of it have, in some cases, have argued that perhaps it wasn't needed or something like that. I don't think that a large number of people on the committee feel that it's inherently not effective.

MR. AHAMED: So, I mean, we know what the benefits are because they're lower long-term rates, lower mortgage rates, so what are the costs that you both worry about?

MR. BERNANKE: Well, I think that some of the costs that people talk about are not really costs, and I'll mention a couple.

One cost that gets talked about is, oh is this going to be inflationary. And while, of course, it's always possible for the Fed to raise rates too late or too early and so on, I think we have plenty of tools now at this point. We've developed all the tools we need to manage interest rates, to tighten monetary policy, even if the balance sheet stays where it is or gets bigger.

And because we can do that, that means that we can run monetary policy in the normal way, and avoid any risks of undue inflation or other such problems. I don't think that's a concern, and those who've been saying, you know, for the last five years that we're just on a brink of hyperinflation, I mean, I think I would just point them to this morning's CPI number and suggest that inflation is just not really a significant risk of this policy.

Another concern that people have talked about is the idea that the Fed might take capital losses which is, of course, not impossible, but I would say that from a social point of view we have already not only helped the economy, but we've actually helped the fiscal situation quite significantly with hundreds of billions of dollars that we've remitted to the Treasury. And that doesn't even take in account the benefits for the public fisc of a stronger economy, more tax revenues, and the like. So that risk is, again, not a true social economic risk. It's, if anything, perhaps a public relations risk for the Fed, but it's not a serious economic risk.

The main risk that my colleagues have pointed to is various aspects of financial stability or potential for financial instability. There is always some concerns that, really for any kind of easy monetary policy, that after a period of time there may be some reaching for yield or some misevaluation of assets. And given what happened, of course, just five years ago we're extraordinarily sensitive to that risk.

Now, of course, that's really for different kinds of monetary policy, QE in addition works on term premiums to a significant extent, and we simply have less knowledge information about how term premiums are determined, and therefore there's a little bit of additional concern, volatility associated with the management of QE.

So there are certainly some risks there, our strategy though has been to -- not to distort monetary policy in order to address those risks directly. Indeed, insufficient monetary policy accommodation if it leads to a weaker economy and bad credit outcomes, etcetera is also a financial stability risk.

So our basic approach has been, at least for the first, second, and third lines of defense, to rely on supervision, regulation, monitoring macro prudential policies, and that whole set of tools that we have and our developing to try to avoid potential problems.

We also look very carefully at the implications of any potential kind of financial imbalance. For example, is that asset class heavily levered? Is it supported heavily by leverage which would in turn mean that a sharp drop in that valuation would lead to other types of problems? Those are the kinds of things we look at, and we've greatly increased our ability to monitor and analyze those types of situations.

So our goal is to address financial instability concerns primarily, at least in the first instance, through supervision, regulation, and other microeconomic types of tools. But it is something that I think of the various costs that have been ascribe to QE, I think it's the only one that I find personally credible, frankly. And it's the one that we have spent the most time thinking about, and trying to make sure that we can address it as best we can.

MR. AHAMED: Sort of bottom line for the moment you're not worried about too much froth in financial markets?

MR. BERNANKE: Well, it's always, of course, bad luck to make any forecast about any particular market, but the markets currently seem to be broadly within, you know, the metrics of market valuation seem to be broadly within historical ranges. The financial system is strong. Key financial institutions are well capitalized, so we're watching this very vigilantly.

We've developed a tremendous additional capacity for doing that. But at this point, you know, we don't think that, and I think I can speak for my colleagues in this, we don't think that financial stability concerns should, at this point, detract from the need for monetary policy accommodation which we are continuing to provide.

MR. AHAMED: So last question and then we'll turn it over to the audience. I mean, has the crisis done long-lasting damage to the economy? And if so, you know, what are those -- what are the channels that you really worry about?

MR. BERNANKE: Well, that's an excellent question, and I don't think we'll know the answer for a while. I would not first, I think it's important to say that there's been a benefit which is that, obviously, we've done a root and branch reformation of the financial regulatory system and of financial markets which will provide greater stability, I hope, and more effective credit provision in the future. So there is at least that benefit, although, of course, it was a very expensive gain.

There are some ways in which the crisis could have effects on the, if you will, the supply side of the economy which means it might have a longer term implication.

One, of course, is the effective of long-term unemployment on labor supply. Obviously there's been declines in labor force participation, part of which is certainly due to ongoing trends that were in place before the crisis, but some of which might be due to the depth of the recession itself, and that could affect the available labor supply going forward, and, of course, has very important direct effects on those who are unemployed and their families, and so that's certainly a concern.

It is, by the way, a motivation for being aggressive with monetary policy to try to prevent those kinds of effects from taking hold.

Another kind of perhaps more longer lasting effect has to do with productivity gains. We've seen very slow increase in productivity recently. We don't fully understand why. Some of it may just be low demand, for example. But it could be that the financial crisis has led to a slower pace of innovation, a slower pace of firm formation, less capital investment which has led in turn to a less rapid pace of innovation.

There's interesting work, there's an economic historian named Alexander Field, who's written that the 1930s was actually a period of great innovation, but it didn't show up in the productivity statistics because with the economy and depression there weren't markets sufficient to make those innovations commercial. So something similar may have happened to some extent here.

Now all that being said, you know, these are important effects, but none of them are permanent -- truly permanent. I mean, eventually the economy will return to the growth path it was on prior to the crisis or something close to that. So these are long-lasting and very serious potential effects, but I don't think that they are truly permanent.

MR. AHAMED: Great, so we're going to turn to some questions which David's going to --

MR. WESSEL: We have a couple minutes for questions. I want to ask if there's any of the people who are on the panel this morning want to pose a question, if not we'll go to the audience.

Okay. Up front, you want to stand up and wait for a mic, and tell us who you are, and let's try to keep the questions to questions. And 140 word character is a good.

MR. LAMONT: Ned Lamont, Mr. Chairman, as a student of history talk about the role of the President. During the Great Depression we have Franklin Roosevelt Fireside Chats, Explainer-in-Chief making some sense and comfort out of the chaos. Did we have that in 2008? Because my sense is the American people, Main Street, Wall Street, there's still a great deal of confusion, and I think we're paying the consequences of it even today.

MR. BERNANKE: Well, it was a big challenge to explain what was going on, and, you know, at the Federal Reserve we tried to do it. We didn't always succeed, I'm sure.

I give President Bush actually a lot of credit. He gave a lot of leeway to me and to Secretary Paulson to do what we thought was right. He supported us throughout the process. I remember him going on television and giving a speech about the TARP which must have been very difficult for him, you know, given his political predilections and the cost of that from the political side.

So it was difficult, it was difficult. Communication was a challenge throughout this whole process, but I wouldn't put it on the President or anyone else. I mean, I think all of us who were involved in the policymaking had a role, and had a responsibility to explain as best we could. And this was a time at which, you know, I came -- when I came to the Fed I was very interested in increasing the transparency of the Fed. Although my motivations were primarily for making monetary policy more predictable and more accountable.

But as it turned out, transparency was very helpful in other dimensions as well. In particular, you know, I tried where I could to bring the story, not just to markets and to other economists, but to a more Main Street type of audience, you know, on television or in town halls and things of that sort.

But it was very challenging, frankly, to do that. We obviously had other things to do as well. If you look around the world there are populist reactions, you know, in most countries where there were serious financial crises, and that's probably not avoidable completely.

And what we have to do is, again, to explain what we did, why we did it, and try to win back the confidence of the public. And that's, I think, an important objective for all of us around the world.

MR. WESSEL: Gentleman here in the blue shirt, Garrett.

MR. MITCHELL: Thanks very much. I'm Garrett Mitchell and I write The Mitchell Report, and Mr. Chairman, I'd like to ask a question that broadens from Mr. Lamont's question. And that is, you've been in a remarkable place during a remarkable period of time. You are a great student of history.

And what I'm interested in knowing is whether this experience has caused you to think in different terms about the strengths and weaknesses of our political system, and in particular how you think the system, and I mean that writ large, the executive branch, the Congress, the people themselves, whether it gave you a different perspective, a stronger perspective, a more questionable perspective on how well American governance is working at this point in the 21st century?

MR. WESSEL: Yes or no question.

MR. BERNANKE: Yes or no. There's two separate questions there. One has to do with sort of the structure of the American government as given to us by the Constitution and all of the evolution of the government since then. And then there's a question of our currently political situation in terms of the mix of views and ideologies which are currently on the Hill, in particular.

In terms of the former, without making a judgment at all, and I'm certainly not qualified to make a judgment about overall political systems. One thing that really struck me during the crisis was that the governments that had more parliamentary type systems were better able to respond quickly to a financial crisis.

I think, you know, it was envisioned in the Constitution that the president might have to act quickly to respond to a military or some kind of foreign relations crisis. That's why the president has a lot of flexibility to take action in the event of a military attack, for example. Of course, ultimately going to Congress to get ratification.

During the crisis, say the British, for example, very quickly but together a plan to address their banking problems because in this particular case they had a government which controlled the legislature and was able to respond quickly. So I think that turned out to be a problem during the crisis.

Now, obviously, some of the legislative actions that have been taken, and Dodd/Frank and so on have tried to set up frameworks whereby the Fed, the Treasury, and other regulators would be able to take necessary actions, like, for example, the liquidation authority. So there has been an attempt to address those, that structural problem with respect to financial crises.

On the broader question of governance, you know, I have felt some frustration. Certainly it's been a concern that we've had these periods of fights over the debt limit and things of that sort. And I think those things have caused problems for the economy. They've hit confidence. They certainly have prevented no more positive, constructive action on the part of the government to address some of these concerns in terms of unemployment, for example.

But, you know, again, that's not a feature of the nature of our government. It's just the current situation in terms of the disagreements and range of views that are currently on the Hill.

MR. WESSEL: Another question, Krishna.

MR. GUHA: Krishna Guha, ISI. Mr. Chairman, when we look beyond the legacy of the crisis itself in terms of deleveraging and the other affects that Ken Rogoff and others have written about so much, there are other factors at play. The gaining of the population here in the U.S. and in much of the industrialized world, the increasingly fractural distribution of income gains, as well as international factors such as the continuation of the global savings glut, reserve accumulation by emerging market economies.

When you look over the longer sweep ahead beyond when we may have finally achieved full employment again here, do you expect that we will be in an era of sustained low interest rates?

MR. BERNANKE: I wasn't expecting that little end there to that question. I'm hopeful that we won't be in a situation -- I mean, part of the implication of your question is the zero lower bound is that going to be relevant a lot or not. It's hard to know.

Certainly there are a couple of ways of avoiding zero lower bound. One would be to avoid deep recessions like the one that we are now immerging from.

Another would be to use a more balanced mix of monetary and fiscal policy when responding to recessions so as not to over rely on low interest rate monetary policies.

Given inflation, the determinative long-run interest rates, it's going to be the rate of return to capital investment, productivity, and so on, and that's a huge debate, as you know. I guess that I think that the jury is still out about longer term technological trends and the productivity of capital.

One of the other things you mentioned, I think as part of the -- has been part of the concern which is the global savings glut. You know, during the period before the crisis the U.S. had a 6 percent trade deficit. We still have a trade deficit.

Which means, of course, that 6 percent of our domestic arch of demand is being, you know, is being drained off essentially abroad. At the same time we, among the richest countries in the world, are receiving large amounts of capital inflows in that which both of those things are going to tend to push down interest rates.

So one way to address low interest rate problems would be to get better balance in growth in terms of trade and capital flows. Another way, again, is to have a better balance of monetary and fiscal policy including good investments in productivity enhancing projects like effective infrastructure for example.

But in the end it's going to depend a lot on the return to innovation, return to new capital. As I said, I think that question is still very much open, but I'm not yet ready to, certainly to conclude that very low interest rates are going to be a permanent condition.

MR. HUTCHINS: I think that today has been a fantastic start for the Hutchins Center. I think we have at least as many questions to pursue at noon as we did at 9:00 which means that we have a great opportunity.

I want to thank, not only the participants who were both very helpful in helping frame the event, but mainly kept to the schedule which is, you know, is always a challenge. And also, I don't have the long list of names of people who made this possible who make an event like this successful, but anonymously, I want to ask you to join me in thanking not only them, but Ben Bernanke and Liaquat Ahamed.

MR. AHAMED: Thanks a lot.

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