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Does Ben Bernanke Have to Go?

By Dean Baker

Truthout | Perspective

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This is a question that members of Congress should be asking right now. It is becoming increasingly clear that we are facing the worst financial meltdown since the Depression, and Mr. Bernanke was caught asleep at the wheel.

In testimonies before Congress and [other statements](#) he repeatedly assured the public that there was no bubble in the housing market, arguing that fundamental factors explained the unprecedented 70 percent increase in inflation-adjusted house prices from 1996 to 2006. Such reassurances undoubtedly helped sustain the bubble until it finally reached the bursting point last year.

Even after the bubble began to burst, Mr. Bernanke failed to recognize the seriousness of the problem. As recently as last July, he told Congress that, "for the most part, financial markets have remained supportive of [economic growth](#)," failing to see the financial tsunami that was about to engulf the economy and push it into a recession. As the successive waves have hit the economy, Bernanke has been consistently behind the curve. Even at this date, he still has not acknowledged the likely damage to financial markets and the economy from the loss of as much as \$8 trillion in housing bubble wealth.

In fairness to Bernanke, most of the blame for the housing bubble rests on the shoulders of his predecessor, Alan Greenspan. However, Mr. Greenspan has fled the scene of the crime. (Actually he is still there, busily trying to rationalize his failures, but Greenspan is no

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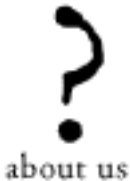
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longer accountable to Congress.)



There were failures by any number of federal and state regulatory agencies that should also be brought into the picture. It was impossible for anyone to look at the explosion of the subprime mortgage market from 2004 to 2007 and not realize that it was being driven by some very seriously irrational exuberance. There are hundreds of people in decision-making positions at regulatory agencies who should be getting pink slips right now.



But the reason that Congress should focus on Bernanke is to reestablish the principle of Fed accountability. The Federal Reserve Board was set up to be independent of Congress. The basic principle, that we don't want Congress setting interest rates, is a sound one. However, that doesn't mean that the Fed should not be answerable to Congress. In recent years, the Fed chairman has been treated as an oracle of knowledge whose wisdom would trickle down to members of Congress and the public at large in selected pronouncements. Alan Greenspan certainly sought to cultivate this attitude.

However, the reality is that the Fed chairs are mortals like the rest of us, and oftentimes mortals who actually do their job very poorly. Allowing the housing bubble to grow unchecked was a mistake of monumental proportions. It was inevitable that it would end badly. There is absolutely no excuse for a competent macro economist to have missed the growth of this bubble. The country had never seen this sort of run-up in house prices. Furthermore, there was no explanation for this run-up, based on the fundamentals of supply and demand in the housing market, that passed the laugh test.

Yet, the Fed chairmen either did not see the bubble or chose to ignore it. As Greenspan said repeatedly in reference to the stock bubble, he thought it was best just to let the bubble run its course and then pick up the pieces after it burst. Well, it is not easy to pick up the pieces after bubbles burst, and that is going to be even more true with the housing bubble than with the stock bubble.

In addition to having a recession, which is likely to be long and deep, tens of millions of homeowners are seeing much of their life savings disappear before their eyes. After all, the Fed chairman and other experts assured them that there was no bubble, so why should they think that the price of their home could fall 30 or 40 percent? Unlike former Fed chairmen, these homeowners will not have the opportunity to sign multimillion-dollar book contracts or give speeches at a quarter million dollars a shot.

We are just at the beginning of the housing crash recession. It will get much worse, as the economists who never saw it coming are now recognizing. There will be many more credit freeze-ups and debt write-downs that are an order of magnitude larger than what we have seen to date. There will be plenty of blame to go around in this story, but it is not too early to start holding people accountable. There was a colossal failure of economic policy, and its perpetrators should not be able to walk away unscathed.

Dean Baker is the co-director of the Center for Economic and Policy Research (CEPR). He is the author of The Conservative Nanny State: How the Wealthy Use the Government to Stay Rich and Get Richer (www.conservativenannystate.org). He also has a blog, "Beat the Press," where he discusses the media's coverage of economic issues. You can find it at the American Prospect's web site.

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