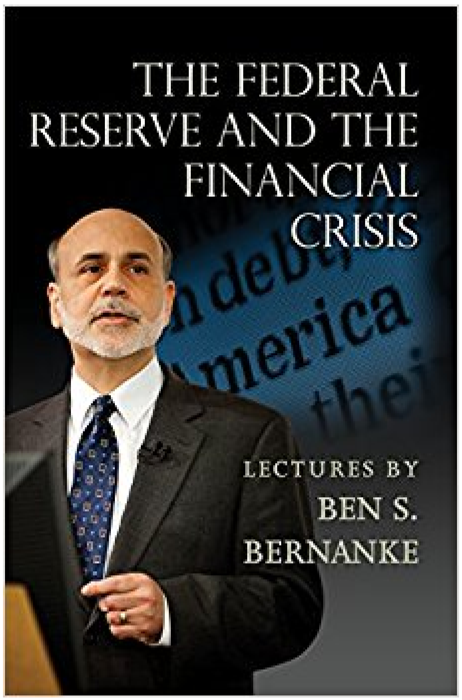
The Federal Reserve And The Financial Crisis



Synopsis

In 2012, Ben Bernanke, chairman of the U.S. Federal Reserve, gave a series of lectures about the Federal Reserve and the 2008 financial crisis, as part of a course at George Washington University on the role of the Federal Reserve in the economy. In this unusual event, Bernanke revealed important background and insights into the central bank's crucial actions during the worst financial crisis since the Great Depression. Taken directly from these historic talks, The Federal Reserve and the Financial Crisis offers insight into the guiding principles behind the Fed's activities and the lessons to be learned from its handling of recent economic challenges. Bernanke traces the origins of the Federal Reserve, from its inception in 1914 through the Second World War, and he looks at the Fed post-1945, when it began operating independently from other governmental departments such as the Treasury. During this time the Fed grappled with episodes of high inflation, finally tamed by then-chairman Paul Volcker. Bernanke also explores the period under his predecessor, Alan Greenspan, known as the Great Moderation. Bernanke then delves into the Fed's reaction to the recent financial crisis, focusing on the central bank's role as the lender of last resort and discussing efforts that injected liquidity into the banking system. Bernanke points out that monetary policies alone cannot revive the economy, and he describes ongoing structural and regulatory problems that need to be addressed. Providing first-hand knowledge of how problems in the financial system were handled, The Federal Reserve and the Financial Crisis will long be studied by those interested in this critical moment in history.

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Customer Reviews

One of China Business Newsâ ™ Financial Books of the Year for 2014"Anyone interested in a primer on recent financial history will likely find Bernanke's book to be worthwhile reading."--Publishers Weekly"The lectures are consistently lucid and informal . . . and above all intelligent and interesting. . . . [I]t would be difficult to find a better short and not very technical account of what went wrong, and of how the Fed (and the Treasury) managed to keep it from getting much worse."--Robert Solow, New Republic"Readers who are not fans of the Fed chairman and his Keynesian, fiat-money policies should find as much of interest here as those who are; it's the sort of primary-source book that investors will scrutinize, politicians will seize on, pundits will plunder and generations of scholars will analyse. . . . [The Federal Reserve and the Financial Crisis] brings what Bernanke said in the classroom to a vastly larger audience; now, it's up to the readers of varying political and economic persuasions to make what they will of his behind-the-scenes account."--Alan Wallace, Pittsburgh Tribune-Review"This book is, in short, not just an excellent guide to the Fed and its response to the financial crisis, but also constitutes an important document of its time, a reflection that central banks can do some very effective short-term anti-crisis measures, but they cannot be miracle workers."--Harold James, Central Banking Journal"The lectures, and Bernanke's answers to students' questions, are uniformly erudite, elegant and concise. Perhaps, the most arresting aspect of the lectures is the fascinating insight they provide into the thinking and motivation of the world's most powerful central banker."--Selwyn Cornish, Economic Record"The author examines what the Federal Reserve was intended to accomplish, how it performed its statutory task as it evolved over time and the special functions of the lender-of-last-resort that have been called upon during the financial crisis. These lectures provide a useful primer on matters not often presented in such a comprehensive or unequivocal way. Bernanke's reputation is often identified with his expertise on the Great Depression. Here, he presents himself differently, as a practitioner of central banking. . . . A great introduction to the functioning of central banking for general readers."--Kirkus Reviews"This important book deserves to be read widely both because Bernanke admirably explains the Fed and its actions and because his authorship provides a window into his thinking as one of the world's most powerful financial figures."--Library Journal (starred review)"In March 2012, Ben Bernanke, chairman of the US Federal Reserve, gave four guest lectures at George Washington University. This slim volume--at only 130 pages, comfortably finished in the time it takes to watch a TV movie--comprises those lectures apparently almost verbatim, with a few astute audience questions and answers at the end of each. . . . This is easy reading."--Financial World "The Federal Reserve and the Financial Crisis .

. . provides a useful tutorial on the workings of an institution in its most difficult hour. For that reason alone, it makes an important contribution to the historical record."--Marc L. Ross, Financial Analysts Journal"[T]his is a useful and highly approachable take on the history of central banking and the recent financial crisis. It's worth a read, if only to get a first-person narrative from one of the most important figures in global capital markets."--Carrie Sheffield, Washington Times"[F]or those interested in why we have central banks, what led to the 2008 financial crisis and how the nation's top officials reacted, there isn't a better primer. . . . This is no boring textbook, despite the occasional chart. Bernanke presents a clear and engaging narrative of the economic history of the United States, while also tackling a few of the perennial anti-Fed bugaboos. . . . One of the book's most important achievements is to place the Fed's extraordinary interventions during the crisis--including the emergency lending of $1.2 trillion to the financial industry--in context."--Ben Weyl, Roll Call"That loud crack you hear are the necks snapping as money-managers and financial specialists all over the country do double takes before snatching this book off the shelves."--C.D. Quyn, San Francisco Book Review"[The Federal Reserve and the Financial Crisis] is a helpful primer on modern central banking by one of its preeminent practitioners."--Foreign Affairs"This book will be particularly useful for those teaching a class in either macroeconomics or economic history of the twentieth century at the undergraduate level, as these lectures provide a succinct and accessible account of U.S. macro policymaking over the last hundred years."--Kris James Mitchener, EH.Net"Providing first-hand knowledge of how problems in the financial system were handled, The Federal Reserve and the Financial Crisis will long be studied by those interested in this critical moment in history."--World Book Industry"I learned so much about the Fed, the crisis, the financial market. Say what you want about Bernanke, but he is one great teacher."--Tibi Puiu, ZME Science"[T]his is an extremely useful book, especially to monetary neophytes like myself. I learned so much about the Fed, the crisis, the financial market. Say what you want about Bernanke, but he is one great teacher."--Tibi Puiu, ZME Science

"In this well-organized book, Ben Bernanke tells the story of the Fed from its founding to the recent financial crisis. Bernanke's rendering is coherent and compelling."--Barry Eichengreen, author of Exorbitant Privilege: The Rise and Fall of the Dollar and the Future of the International Monetary System"It is rare indeed to find a Fed chairman looking back and explaining the Fed's actions. In this valuable book, Ben Bernanke argues strongly that the Fed's decisions during the financial crisis were consistent with long-standing central banking practices. His account is an important part of the historical record."--Alan Blinder, Princeton University

In March 2012, former Federal Reserve Chairman Ben S. Bernanke delivered a series of lectures to an audience of students and faculty at George Washington University, in Washington DC. The four lectures that Mr. Bernanke gave was a summarized history of the Federal Reserve system, how it came into being, and why it was needed. Mr. Bernanke's book is very short, 134 pages including index, and yet, it's brevity, and the sharpness of the picture which Mr. Bernanke paints of the Fed's mission and history makes it essential reading for anyone wanting to voice an opinion about the American financial system and its near collapse in 2008. I would include every member of Congress and their principal aides; every senator and their principal assistants; every committee chairman and committee chief of staff; every newspaper publisher and media executive, editor, and staff writer; and every media commentator.It should also be required reading in every high school and college or university course teaching the basics of American government and political economy. The subject is as fundamental as knowing and understanding the American form of constitutional government. It is that important.Because his book is the product of lectures that Mr. Bernanke gave, lectures that were transcribed and edited for separate publication apart from his appearance before a university audience, he does not go into extensive detail about the Fed's history, its powers and responsibilities, and the existential threat to the American economy that was blunted only because the Federal Reserve was able to marshal the resources needed to rescue the American banking system from the consequences of the nation's leading bankers' excessive risk-taking that led to the collapse of the home mortgage market, a collapse that collectively threatened to tank the American economy as a whole. That we came away from the experience with a deep and painful recession instead of an economy-destroying depression is a tribute to Mr. Bernanke's and his colleagues' indefatigable efforts.Mr. Bernanke begins with a description of a central bank, what it is, and how it operates central banks, he says, are government agencies that stand at the center of a country's monetary and financial system. Historically, they have helped to guide the development of their modern financial and monetary systems, and they play a major role in economic policy. Every major country has a central bank, whether it is the Fed, the Bank of Japan, the Bank of Canada, the Bank of England, the European Central Bank, which acts as the central bank for the European Union, the 17 European countries that share the euro as their common currency, and so on.Central banks, broadly speaking, have two principal missions or functionalities, of which the first is achieving macroeconomic stability; Mr. Bernanke says that macroeconomic stability includes achieving stable growth in a country's economy, avoiding big swings, meaning drastic upturns and downturns of the national economy that in the past have led to uncontrolled inflation and rampant speculation when an economy is going up, and when it is going down, severe economic distress caused by contraction of credit leading to loss of jobs, bank runs, and business failures. That, essentially, was the history of the American economy between 1836, when then-President Andrew Jackson destroyed what was then America's central bank, until 1913, when newly-elected President Woodrow Wilson, ironically, himself elected on the Democratic ticket, signed legislation that had been in the works for more than a decade, thus creating the Federal Reserve system, and giving the American government for the first time in its history the ability to take counter-cyclical measures to ameliorate the worst consequences of the boom-and-bust business cycles that had previously destroyed tens of thousands of previously stable and business-worthy banks and business firms that had to close their doors because they lost access to credit at affordable interest rates through no fault of their own. The consequence of those business failures inevitably meant that tens of millions of bank and business customers lost their jobs, their savings, and frequently, their homes and their farms.It is that loss of bank and business liquidity that brings us to the second reason why we have central banks; they are the lenders of last resort who are able to provide emergency loans at reasonable rates to banks and business firms who suddenly find themselves cash-poor at critical moments because their financial reserves are tied up in business loans and mortgages, in the case of banks, and business inventory and other illiquid assets that cannot be disposed of by their owners without taking drastic losses of value if they have to be sold in distress sales, typically bankruptcy auctions forced mergers, mortgage foreclosures, and the like. Before 1914, an American bank's liquidity was only as good as the amount of cash it had on hand to pay off any depositor who might be concerned about the safety of his account with that bank. In the parlance of the times, when crowds of bank customers lined up at the teller window demanding their deposits back, the term that was used was 'a bank panic' because it was fear and aversion to risk that drove depositors to demand their money back, lest the bank shutter its business before they could get their money out. The so-called 'panics' had the effect of economic earthquakes that sent shockwaves out to any and all banks, businesses, and commercial customers with whom the banks had business dealings. Banks under siege by crowds of panicky depositors would soon run out of money, and the only way they could raise money would be to call the loans that they had written to their customers, and to withdraw funds on deposit in the large city banks with whom they had been transacting business to facilitate the purchase and sale of agricultural products and commodities, raw materials, and other goods and services in distant cities and states.Mr. Bernanke mentions in his first lecture a British journalist, Walter Bagehot, who articulated the fundamental rationale for making the central bank 'the lender of last resort'. Bagehot reason that in times of financial panic, only a relative few business firms were actually insolvent, but in a cash, or near cash economy, a stable business would always need credit to cover its payment obligations, and even if the firm has sufficient assets to cover its debts, those assets might not necessarily be readily convertible to cash. If the firm had to do so, typically it would take a drastic loss, thereby jeopardizing its economic health. Bagehot's dictum was that in times of panic, a bank should always loan money to a business firm if that firm's collateral was good. The customer pays a slightly higher interest rate for the privilege of borrowing emergency funds, but on balance it preserves the value of the collateral against a forced sale.Mr. Bernanke then goes on to give what amounts to a thumbnail sketch of the economic history of the United States with respect to the six bank panics and the ensuing business failures leading that occurred between 1873 in 1914. The Panics of 1893 and 1907 proved to be particularly severe because of the increasingly industrialized character of the American economy as compared with the decentralized, agrarian economy that was prevalent before the Civil War. In 1893, five hundred banks closed their doors; in 1907, fewer banks failed but those that did were larger.Another problem that Mr. Bernanke discusses was the gold standard. In certain conservative quarters, gold is the ultimate commodity of value going back to ancient times. The problem is that in the modern world, gold is one of many indicators of value, but tying a nation's currency to the value of gold makes it inflexible, and having to transport gold from one place to another, whether in coin or bullion, great severe logistical problems, not to mention risk of loss from theft or natural disaster.Mr. Bernanke goes on to describe the essential structure of the Federal Reserve system, consisting of a central headquarters in the nation's capital, Washington DC, but overseeing a system of 12 Federal Reserve Banks, each of which services a particular district or region within the continental United States. Through a series of charts and graphs, Mr. Bernanke describes what happened during the 1920s through the end of World War II, and he notes that during the Fed's first 35 years of existence, the Fed was dominated by the old economic thinking, and it did not use its powers either to develop and guide economic policy, nor did it fulfill its function as lender of last resort. Consequently, the depression that we suffered during the 1930s was much more severe than it needed to be.In his second lecture, Mr. Bernanke brings the Fed into the post-World War II world. This was the period of the Cold War, where the United States used its economic clout as a cudgel against the Soviet Union. United States was now using its economic and industrial prowess in a strategic effort to offset and undermine the Soviet Union's military advantages in manpower and arms production. That effort eventually proved to be successful when the Soviet Union could no longer compete with the United States economically.Mr. Bernanke concludes his second lecture by describing the Fed's efforts to control and thereafter eliminate inflation from the American economy.

The Fed’s raising of interest rates caused a great deal of short-term pain, but ultimately the efforts of its then-chairman, Paul Volcker, proved successful. What came afterward has been called, ’The Great Moderation’, in which the peaks and valleys of economic activity occurring between 1984 and 2006, as represented by changes in the interest rates charged to member banks, tended to remain quite consistent over time. That consistency was also reflected in the Consumer Price Index as it existed between 1986 and 2007, reflecting a relatively low level of volatility.But, the Great Moderation’s extended stability and low inflation came at a hidden cost, which Mr. Bernanke makes clear to the end of his second lecture. For those making higher incomes, price stability and low inflation made finding productive investments for rising incomes difficult to find. Additionally, wealth generated elsewhere in the world found its way into the American economy looking for better investment opportunities than were available in its countries of origin. That new money found its niche in the American housing market, particularly for single-family homes, wherein prices of existing houses trebled between 1980 and 2007. That housing bubble was facilitated and accelerated by the mortgage finance industry’s use of residential home mortgages to create new forms of investment through collateralization and sold as bundled obligations to investors seeking higher returns, whatever the risk. These were entirely new instruments whose complexity and opacity defeated any form of reasonable analysis, and bad mortgages were bundled with the good so that no one could objectively determine whether the bundled mortgages, or any particular tranche within them, would be likely to default. The banking industry itself appeared to drop all pretense of reviewing mortgage applications to determine whether prospective borrowers would be capable of repaying their loans. As the buying mania got higher, properties would be ’flipped’, passing from buyer to buyer to buyer, and increasing in paper value with each turnover.In addition to the housing market, the securities industry developed other types of opaque and exotic financial instruments that were far too complex to be understood. It became common knowledge that newly-minted PhD’s in mathematics and physics sought and found employment not in their areas of scientific expertise, but rather in the financial services industry crafting algorithms in which highly sophisticated mathematics played a central role in designing these new types of investments.The securities industry itself, in the form of the rating companies, like Standard & Poor’s, had an insurmountable conflict of interest because they were being paid by the securities issuers to bless their products with a AAA rating, the highest and safest rating available.From a regulatory standpoint, Mr. Bernanke makes clear that government agencies charged with the administration of the securities and banking laws were both outgunned and outmaneuvered by both outdated laws that parceled out different regulatory responsibilities among a number of different government agencies, each with a different regulatory focus, no common plan, and perhaps worst of all, no common understanding of what was happening to the economy as a whole. Intermediate steps that could have been taken along the way that would have thwarted some of the worst abuses were not taken either because the agency staff lacked the resources to do its job thoroughly, or lacked the political will to buck politicians in Congress who wanted to keep things just the way they were.In the end, it was for the banking and financial services industry, to borrow Sebastian Junger's apt description, 'the perfect storm'. Mr. Bernanke goes on to tell us how the Fed was able to deflect the worst aspects of the financial crisis. But it was also clear that the American economy came perilously close to a fiscal calamity that could have equaled or exceeded the disaster of the 1930s. In the end, it was the Federal Reserve that would handle the deluge, or it was nothing at all.Mr. Bernanke has written a much longer book on the subject of the financial crisis in which he goes into much greater detail. That longer book will be the subject of a future review. But this one, short as it is, makes its point clearly and cogently, and for that reason should be as widely disseminated as possible.

What I like about Ben Bernanke's book of lectures is that he is speaking to me, a citizen, about a subject that is not well understood by most people. I suspect that 90% of people have little or no understanding of the function of the Federal Reserve Bank. After 18 years of Alan Greenspan speaking in riddles and subterfuge it is refreshing to have a fed Chairman present a clear explanation of the role of the Federal Reserve in our economy. Of course everyone has a choice; they can listen to self serving critics and political demagoguery or they can try to lean something. I recommend this book.

Decent book. Bernanke is a little self-serving and not all of his arguments are as strong, but a nice quick read with a good overview of the Fed policy in response to the crisis. I particularly liked the Q&A session after each chapter, felt like a real lecture setting. Not recommended for more well-read students of economics (lot of introductory stuff in the book).

Chairman Bernanke is a good communicator. I wish my economics professors had been half as good. He gives a lucid explanation of the evolution of central banking in advanced economies, and the history and functioning of the Federal Reserve, America's central bank. He discusses the Fed's dual roles as "lender of last resort" and it's role as the maker and implementer of US monetary policy. It is in the latter role that the Fed has been most controversial over the years, but Bernanke skirts most of that and other controversies surrounding the Fed. In discussing the Fed's role in responding to the 2007-08 financial crisis, Bernanke actually takes that skirting a step further. He denies that government policies had anything to do with that crisis, which he says arose out of problems in the private sector. That point is at least debatable, if not laughable, given the government's significant role in creating and expanding the sub-prime mortgage market. But Bernanke is a loyal trooper and follows the party line. So, if you want to learn about how the Fed came to be and how and why it functions as it does, this book will be informative and an easy read. If you want to learn about the causes of the 2007-08 economic crisis and the rightness or wrongness of government's responses to it, look elsewhere.

Who knew economics and managing the central bank can be so interesting. I liked how this book was done in lecture style as if you were listening to the prof share his views and experiences and he doesn't claim to know or be able to solve all the issues either which challenges you to think even after reading.

The book did not deliver what Bernanke hyped in his TV promotional interview. It did not explain the "lines that were crossed" and the "things that were never done before" during the Great Contraction. The book was a very elementary explanation of how the central bank works but did not add any new insight as to what happened during the critical days of the "Financial Crisis."

Better is Dr Bernanke's The Courage to Act, but if you like reading about the GFC add it to your list. I did learn from this book what Dr Bernanke thought was the single event that would break the worlds financial system...

Great book for ones library

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