

## Dean Croushore Blog About Monetary Policy

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Farewell to Chairman Bernanke

The FOMC meeting last week was Ben Bernanke's final meeting as chairman of the Fed. Janet Yellen will be sworn in as the new chair on February 3.

What will be Chairman Bernanke's legacy? I think he will be remembered for three main things: (1) keeping the U.S. economy out of Great Depression II; (2) creatively developing new tools to respond to issues that arose in the last recession; and (3) permanently changing the Fed by making it more open and accountable.

In the Great Depression in the 1930s, the Fed allowed the money supply to decline, leading to deflation. Early in his research career, Bernanke had studied the Great Depression and the mistakes that the Fed made in that period. How fortunate for us that a scholar of the Great Depression happened to be chairman of the Fed when similar circumstances arose! Chairman Bernanke ensured that the money supply would not decline in 2008 and 2009, and although inflation was temporarily negative, the price decline did not last very long. In addition, the Fed used many other methods, discussed below, to prevent financial markets from shutting down completely in the financial crisis. Chairman Bernanke knew that the financial system is the lifeline of the economy and that he needed to do everything possible to keep the financial market from freezing.

Chairman Bernanke developed numerous new tools to keep the economy from faltering completely in the recession. The Fed's alphabet soup of lending programs (TAF, PDCF, TSLF, CPFF, AMLF, MMIFF, TALF) made funds available to banks, securities dealers, commercial paper markets, and money markets, preventing the complete breakdown of financial markets in the crisis. Once the crisis was over, Chairman Bernanke led the Fed in developing tools such as forward guidance and quantitative easing to ease the pain of the recession and stimulate the economy back to strength. Of course, the jury is still out on the success of the latter programs, as many economists worry about their potential to cause inflation. But Chairman Bernanke's term is marked by the lowest average inflation rate (2.1% in the CPI) of any Fed chairman since Chairman Martin in the 1950s and 1960s.

One of Chairman Bernanke's accomplishments that is less discussed is his efforts to make the Fed more open and accountable. If you look at the information the Fed provided to the public before Chairman Bernanke's term compared with what it provides today, you will see that the Fed is much more forthcoming about everything it does. The news releases and minutes of FOMC meetings are much longer and more detailed than was the case eight years ago. The Fed announces its forecasts four times a year, compared with twice a year in the past, and the forecasts are more detailed and clear. And Chairman Bernanke has appeared on television and gives press conferences every few meetings, an unprecedented act of openness for a Fed chairman. Finally, the Fed announced an explicit inflation target after its meeting in January 2012, stating that its long-run goal is to keep the inflation rate, as measured by the PCE price index, at 2 percent, stating that its long-run goal is to keep the inflation rate,

as measured by the PCE price index, at 2 percent, the first time the Fed had explicitly announced a long-run goal.

Only time will tell if Chairman Bernanke's legacy will be as strong ten years from now as it is today. If inflation remains low and the Fed is able to ultimately shrink its balance sheet without causing inflation or high interest rates in the next decade, then Chairman Bernanke will be remembered as one of the strongest Fed chairmen of all time. But if inflation rises or interest rates rise sharply in the next few years, Chairman Bernanke will not be viewed as favorably.