

Book report on in fed we trust finance essay

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In *Fed We Trust*, by David Wessel, goes over the hard decisions and the order of events that caused the Great Panic. To prevent a possible second Great Depression, Ben Bernanke, a scholar of the Great Depression was called in to save the day. Bernanke swore to do everything in his power to keep the economy afloat, which entitled keeping the big businesses from going under. Some of the key players in this book were Henry Paulson, who was the Secretary of Treasury under the Bush Administration, previously stated Ben Bernanke and his other colleagues who were Don Kohn, Tim Geithner, and Kevin Warsh. These last stated four men were also known as the "four musketeers." The "four musketeers" threatened what we know as a free market capitalist system. With the tremendous power and independence the Federal Reserve shows from *In Fed We Trust*, the situation of the Great Panic and how they dealt with it is very debatable. The Fed had to try to get the economy back to stable conditions by any means possible and could do this by just creating money from nothing. *In Fed We Trust* demonstrates the challenges the American Society were faced with in dealing with this economic crisis different from any other, how monetary policy was transformed, and how the Fed converted from Greenspan to un-Greenspan. Throughout the Great Panic the Federal Reserve tried to bail out big companies that were going under, and the Fed became known as the "lender of last resort." The Lehman Brothers were going under and the fed had a difficult time trying to help them out. The Fed and Paulson tried to find a company to buy out the Lehman Brothers and found a bank in Britain called Barclays. The British Financial Services Authority wouldn't allow Barclay to purchase Lehman which resulted in the company failing because the Fed didn't have a backup plan if this deal didn't go through. This caused

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damage to the markets and was the last time Bernanke would let a big firm fail and from hereon try to do whatever it took to save them. Two days after Lehman failed; the Fed spent 85 billion dollars helping AIG from following the same fate of Lehman. Greenspan started cutting interest rates from 6 and a half percent to 1 percent in 2001, even though the technology stock bubble was on its downward slope and the economy was getting weaker. Since rates were so low, investors tried to get higher returns on their money by taking greater risks. Greenspan sat in the back seat and let the housing boom happen and watched subprime lenders continue doing what they have been when he should have stopped them. Greenspan's free market capitalistic view limited him on what he could intervene and regulate in the market. He slowly started raising interest rates again after the cut in them until they got to 4 and a half percent and that's when President Bush appointed Bernanke to take over. Bernanke aimed to "un-Greenspan" and showed that he would not follow Greenspan's example of free market capitalistic views and be more clear than how Greenspan's Fed was. One of these changes were in FOMC meetings when the room was use to hearing Greenspan speak first then hear everyone else's opinions to when Bernanke took over hearing the rooms opinions first then hearing what Bernanke thought. Bernanke also decided to stop talking about interest rates in FOMC meetings and put them on hold for awhile. He then wanted to get an economic forecast four times a year instead of twice a year, under Greenspan, from governors and regional bank presidents. Bernanke's Fed later had to change monetary policies that Greenspan's Fed had never seen before. Bernanke was convinced that the U. S. economy would likely expand at a moderate pace in the second half of 2007, with growth putting the U. S. back to a rate close to the underlying

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trend. Subprime lending started to become a huge issue in 2007 but nothing was done about it because Bernanke thought that the U. S. housing market was just a small impact on what was happening to the economy, but people started to spend because of the thought that their assets were increasing in value causing a unforeseen crash. The Fed admitted to their mistake in overlooking the housing boom and lowered the discount rate and for the first time ever the federal funds rate. They lowered the federal funds rate from 5.25% to 4.75%. Banks didn't want to appear financially unstable and take this discount through the discount window, so the Fed came up with a way to make it more anonymous by giving loans through a Term Auction Facility instead. The Federal Funds rate was cut another one quarter percentage point at the October 2007 FOMC meeting. Again in January 2008 he cut it another three quarter point because he learned that the BLS unemployment rate increased from 4.7% to 5% and the economy went into a recession in December. The market liked this cut in the Federal Funds Rate and there so improving the markets points. Bernanke again cut rates another one half percent in January to try to further improve the economy because he knows he was calculating the market wrong. After Bear Sterns bailout, it was assured that the Fed would lend to pretty much anyone who needed help in "unusual and exigent" circumstances as declared in the Federal Reserve act. The Fed Created TSLF which traded hard to sell securities for safe U. S. Treasury securities for up to 28 days. Bernanke was "trying to unclog what he dubbed the credit channel, giving them a chance to replace bad paper with something nearly as good as cash would get credit flowing again; confidence would rise." This led to also the PDCF forming helping firms following in the steps of Bear Stearns. Around April 2008, Fannie May and <https://assignbuster.com/book-report-on-in-fed-we-trust-finance-essay/>

Freddie Mac were in trouble of going under. These two companies are huge mortgage firms so it's no surprise that they were going under due to the housing bubble. Housing prices started to drop and homeowners started defaulting on their mortgages. The Federal Reserve helped these two companies but pumping money into them and turning them into government-run companies replacing their top executives. AIG started going under in September of 2008 and once again the Fed would have to bail out another huge company. AIG had to give up 79.9 percent of the company to the government in exchange for this 85 billion dollar bailout. Bernanke, Kohn, Geithner, and Warsh saw that the market was falling horribly once again and went to congress to request a 700 billion dollar taxpayer payout that sought to give the secretary unlimited power to buy assets. This legislation was called TARP when passed. The markets still continued to decline and then the Fed created CDO. WaMu was in a bind in September 2008 when they saw 9% of the company's deposits flee within 10 days. Sheila Bair, FDIC chair that WaMu's jurisdiction was under tried to find the least cost solution to this failing institution. She lost due to systemically important law and Wells Fargo bought WaMu because earlier proclaimed Citigroup didn't want to buy the whole company. JPMorgan Chase, Bank of America, Merrill Lynch, Morgan Stanley, Wells Fargo, Goldman Sachs, Bank of New York Mellon, Citibank, and State Street Corporations were all offered by Paulson to buy commercial paper and the FDIC guaranteed back of bank's debts for their stocks with the TARP money. All CEOs signed agreement to the proposal. In the beginning of 2009 Geithner got elected to Obama's treasury Secretary. Rates were at 0% which entered the world of ZIRP which led to a zero interest rate policy. Japan faced the same issue previously and emphasized quantity rather than

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price. Bernanke called this method "credit easing." The term asset backed securities loan facility rose questions with some Fed presidents by saying that it was not an exit strategy for this program. It would just create problems further down the line. The policies the Fed as implied still have changed society for the good yet. It keeps buying up securities worth hundreds of billions of dollars and the market still doesn't get better. In Fed We Trust was published in the summer of 2009 and some policies have changed and some statistics have also changed. The Unemployment Rate according to the Bureau of Labor Statistics report for June of 2009 is 9.5%. The Rate has increased to 9.7% in the month of January 2010. The market has improved some from July 2009 at 9200 to 10600 for the beginning of 2010 in the Dow Jones Industrial Average. Also the GDP according the bea.gov of personal income is up .01% in January 2010 from the fourth quarter in 2009. Obama announced in August of 2009 that he would keep Bernanke as Fed Chairmen for a second term. In 2009 Bernanke tried reassuring the dollar will hold up strong against other major currency around the world. The dollar is still number one form of money used in the world. Also Bernanke states that the Fed is expecting to keep interest rates near zero for an extended period of time. Banks can no longer charge fees for overdrafts on ATM and one time debit card transactions effective July 1, 2010. You will have to be 21 to get a credit card with no co-signer starting in 2010. A lot of policies David Wessel writes in "In Fed We Trust" are now out dated. "In light of improved functioning of financial markets, many of the new policy tools described in this section have expired or been closed. These include the Money Market Investor Funding Facility, the Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility, the Commercial Paper <https://assignbuster.com/book-report-on-in-fed-we-trust-finance-essay/>

Funding Facility, the Primary Dealer Credit Facility, the Term Securities Lending Facility, and the temporary liquidity swap arrangements between the Federal Reserve and other central banks."(www. federalreserve. gov). A new set of instruments the Federal Reserve has expanded on is its open market operations through purchase of longer term securities. The Federal Reserve recently in Feb 2010 made modifications to its discount window lending programs. In 2009 Chris Dodd announced a new plan that would limit Federal Reserve's powerful role in the economy by creating a single bank regulator regulating banks holding companies and some banks. He wants to centralize all banks in order to get rid of each region having its own directors. Bernanke spoke out against this plan because he was concerned that it could possible render the Feds ability to handle future crises by not having full control." The Federal Funds rate will remain at 0 to one fourth percent and continues to anticipate that economic conditions, including low rates of resource utilization, subdued inflation trends, and stable inflation expectations, are likely to warrant exceptionally low levels of the federal funds rate for an extended period."(www. federalreserve. gov)The Federal Reserve is working hard trying to get the economy back to where it was before the crisis and bubbles that happened. New monetary policies are being created to replace to old ones that are outdated like several examples I named above that are already out of date. Bernanke wanted a hands on approach to where the economy was going and try to help with his unconventional methods and intervention into the markets, instead of what Greenspan did and just sit back and watch. Who knows if Bernanke's methods will pull us out of this crisis in the future?