Former Fed Chairman Ben Bernanke Launches a Blog

By Don Sutherland

Former Federal Reserve Chairman Ben Bernanke, who chaired the Fed during the 2008 financial crisis and recovery that commenced in mid-2009, has launched a **blog** at the Brookings Institution. The blog aims to focus on economics, finance, and monetary policy.

Bernanke chaired the Fed from February 2006 through January 2014. He played a pivotal role in developing a range of innovative policy solutions to help avert a complete meltdown of the nation's financial sector and a Depression that would almost certainly have followed in its wake. Such creative approaches included the Term Auction Facility (TAF), to provide short-term funding to depository institutions, the Term Asset-Backed Securities Loan Facility (TALF) to sustain consumer lending, the Commercial Paper Funding Facility (CPFF) to provide short-term liquidity to U.S. issuers of commercial paper at a time when even low-risk companies such as General Electric could no longer sell short-term paper in a dysfunctional market, among others. Under Bernanke, the Fed also launched a quantitative easing (QE) program under which it purchased longer-term agency debt, agency mortgage-backed securities, and Treasury securities to lower long-term yields and reflate a range of asset prices.

In his first substantive blog entry, the former Fed Chairman explains why interest rates are currently low. In that piece, he briefly explains equilibrium interest rates. The equilibrium rate is one with an optimal macroeconomic impact. An interest rate above the equilibrium figure would result in a slowing economy. An interest rate below the equilibrium figure would result in accelerating economic activity and the emergency of inflation. He then discusses why the Fed chose not to raise interest rates 'prematurely' once the economic recovery got underway.

Bernanke wrote:

A premature increase in interest rates engineered by the Fed would…have likely led after a short time to an economic slowdown and, consequently, lower returns on capital investments. The slowing economy in turn would have forced the Fed to capitulate and reduce market interest rates again. This is hardly a hypothetical scenario: In recent years, several major central banks have prematurely raised interest rates, only to be forced by a worsening economy to backpedal and retract the increases. Ultimately, the best way to improve the returns attainable by savers was to do what the Fed actually did: keep rates low (closer to the low equilibrium rate), so that the economy could recover and more quickly reach the point of producing healthier investment returns.

In my BBA 407 strategic management class, economic forces are one of the important factors that shape strategic opportunities and challenges for companies. Therefore, insight into macroeconomic developments and monetary policy can be valuable in identifying and refining viable strategies. As a result, I will ask that my class read the former Fed Chairman's blog and will have occasional discussions on some of the issues he discusses e.g., low interest rates and what they might mean for firms' cost of capital, economic profits, and options for long-term growth.