

## [Ben Bernanke Squirms in Fed Hot Seat](#)

The Fed chairman, Ben "Helicopter" Bernanke, is in the hot seat now. The markets are once again focusing on the next meeting of the Federal Open Market Committee (FOMC) set for Tuesday and Wednesday of this coming week. The Fed is expected to hold interest rates unchanged at this meeting but is clearly in an uncomfortable position.

Inflation is roaring ahead at serious rates of increase and the Dollar is in danger of a collapse on forex markets, which would seem to indicate a need for the Fed to start increasing interest rates. However, increasing interest rates with a soft economy underway, a badly deteriorating housing market, and businesses starting to lay off workers at higher rates would probably throw the economy into a deep recession that the Fed has been fighting hard to avoid. After all, this is an election year.

Ben Bernanke is an avowed advocate of a more transparent Federal Reserve and reactionary, anxious markets are the byproduct. Without the mysterious Alan Greenspan at the helm, the curtain has been pulled back on the Fed to reveal Bernanke as a clear, direct economist who admits he has no crystal ball. Ben Bernanke is a super active nanny and he is already supporting the elite financial interests that have created this speculative bubble in the first place.

Over one trillion Dollars have already been made available to the banks and the brokerages to protect them from their own excesses and to attempt to forestall a deflationary rigor mortis. If these bail out operations had not been taken, if the financial system itself were transparent, the house of cards would surely collapse on us all and the people would lynch Bernanke and any other rich jerk on Wall Street and in Washington that they could get their hands on. Bernanke must not rest well at night knowing just how fragile the financial system still is.

Wall Street's positive reaction to the appointment of Ben Bernanke is yet another example of how completely clueless most investors are when it comes to the Fed and the precipice over which America's economy now teeters. Bernanke's time at the gallows may yet come as one mistake in policy may send the economy over the precipice whose depth is a big unknown. Probably the fall will be a long hard one and fairly or not Bernanke will get the lion's share of the blame.

Gold, historically a reliable harbinger of inflation, this year set an all-time high of more than \$1000 an ounce. The dollar is languishing at near a record low against the euro and a weighted basket of international currencies. Housing prices are still falling, actually tanking is a better description. Gold has gone from \$700 to \$930 (was \$1000), while the dollar has absolutely tanked with only a few "talk it up" rallies along the way.

The current dangerous level of inflation is not all an oil problem but oil does seem to be the new punishing force in markets to those governments, like the US, that let their currencies become devalued. As the Dollar falls the price of oil heads higher. In a real sense oil prices have taken on the function that the gold market used to play in keeping governments from running printing presses at full speed. The more the US debases its currency as swift punishment the higher oil prices go.

Unfortunately, for the US and for the world, the US government hasn't yet seemed to be fully aware of this linkage. Or perhaps it is aware, but the financial house of cards in the US is so shaky that high speed printing presses running at full capacity is the only course of action that the government feels that it can take in a misguided effort to avoid a financial meltdown.

High fuel costs are now starting to bite. Four airlines are out of business, Northwest finally had to merge and United and all airlines, except Southwest that was smart enough to hedge its fuel costs, are getting killed by fuel costs and are cutting back on flights and cutting back on employees. Truckers are getting killed too. A major part of the food and goods distribution system in the US is near a breaking point as truckers go broke paying nearly five Dollars a gallon for diesel fuel.

But back to Bernanke. Bush appointed him as Chairman of the Federal Reserve on October 24, 2005 and he was sworn in on February 1, 2006. The chairmanship for the Federal Reserve typically lasts 14 years. Bush, along with Paulson, have done a lot of talking about a strong dollar policy, yet the dollar continues to lose value. Talk long ago lost its impact on markets, except for perhaps fueling short term rallies that professional forex traders sell into. Hard corrective action is what the forex markets now demand if the Dollar is to move higher over the long term.

Wall Street at first thought that the Greenspan "put" would just morph into the Bernanke put. Like a spoiled child, Wall Street came to believe it could get away with any amount of bad behaviour without being punished. The indulgence shown by the Fed became known as the Greenspan "put" - as in a put option which allows an investor to sell shares at an advantageous price when they have fallen below the strike price. Like the Wizard of Oz, Alan Greenspan and other central bankers were hidden behind a non-transparent curtain to evoke an aura of omniscience.

Under Bernanke the curtain has been pulled away, as Bernanke and Trichet are seen as mere mortals trying to cope with a complicated and contradictory economic climate. However, Bernanke is now being criticized by taking actions more designed to bailout Wall Street friends than to bring on lasting solutions to US financial problems. At least that is how many investors see it.

In the end, Bernanke will likely be the poor guy who is stretched out to be drawn and quartered as the economy tanks and Wall Street and the Dollar crash. "Bubbles" Greenspan will be criticized as well as it is his policies while at the Fed chairmanship that lead to the creation of a major part of the financial mess that the US is now in.

But it is Helicopter Ben who is now in the hot seat and the fickle crowd who will be soon trying to survive a recession or worse will probably want their share of red Bernanke meat, including Bubbles Greenspan who as always will admit to no wrong and who will find fault with Bernanke's leadership while defending his own sorry role in the financial debacle.

### About the Author

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