Ben S Bernanke: Remarks

Speech by Mr Ben S Bernanke, Chairman of the Board of Governors of the US Federal Reserve System, at the President's Working Group Market Stability Initiative Announcement, Washington DC, 14 October 2008.

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Good morning. Before I begin, I want to express my appreciation of my colleagues, Secretary Paulson and Chairman Bair, for their efforts in what has been an extraordinary collaboration. As Americans well know, the challenges evident in the financial markets and in the economy are large and complex, but I believe that the steps taken today will help us to overcome them. Our strategy will continue to evolve and be refined as we adapt to new developments and the inevitable setbacks. But we will not stand down until we have achieved our goals of repairing and reforming our financial system and thereby restoring prosperity to our economy.

Over the past year, the Federal Reserve has actively used all its powers and authorities to try to help our economy through this difficult time. And central banks around the world have consulted closely and cooperated in unprecedented ways to reduce strains in financial markets and to bolster our economies. We will continue to do so. However, clearly the time had come for a more comprehensive and broad-based solution.

History teaches us that government engagement in times of severe financial crisis often arrives very late, usually at a point at which most financial institutions are insolvent or nearly so. Waiting too long to act has usually led to much greater direct costs of the intervention itself and, more importantly, magnified the painful effects of financial turmoil on households and businesses. That is not the situation we face today. Fortunately, the Congress and the Administration have acted at a time when the great majority of financial institutions, though stressed by highly volatile and difficult market conditions, remain capable of fulfilling their critical function of providing new credit for our economy. The Congress's prompt and decisive action in passing the financial rescue legislation made possible the critical steps that have been announced this morning. I also find it heartening that we are seeing not just a national, but a global response to the crisis, commensurate with its global nature. Indeed, this past weekend, the finance ministers and central bankers of the Group of Seven industrialized countries announced a set of principles embodying a comprehensive approach to dealing with the crisis. The steps we are taking today are fully consistent with those principles.

As in all past crises, at the root of the problem is a loss of confidence by investors and the public in the strength of key financial institutions and markets, which has had cascading and unwelcome effects on the availability of credit and the value of savings. The actions today are aimed at restoring confidence in our institutions and markets and repairing their capacity to meet the credit needs of American households and businesses. The voluntary equity purchase program will strengthen financial institutions' capacity and willingness to lend. The guarantee of the senior debt of all FDIC-insured depository institutions and their holding companies will restore the confidence of these institutions' creditors and reinvigorate the crucial inter-bank lending markets. Additionally, the Federal Reserve is pressing forward with its facility to provide a broad backstop for the commercial paper market, so vital to the functioning of our businesses.

Policymakers here and around the globe have taken a series of extraordinary steps. Americans can be confident that every resource is being brought to bear: historical understanding, technical expertise, economic analysis, and political leadership. I am not suggesting the way forward will be easy. But I strongly believe that the application of these tools, together with the underlying vitality and resilience of the American economy, will help to restore confidence to our financial system and place our economy back on a path to vigorous, healthy growth.