Fed Chairman Bernanke holds theatrical press conference

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Reveals Fed as 'Fourth Estate'

> Yesterday, Ben Bernanke departed from the silent, opaque tradition of the Federal Reserve and held a press conference. The event attracted considerable attention, for its novelty as much as for its substance. But those hoping that Bernanke would do his best imitation of Willy Wonka and reveal hidden facets of humor, complexity and charisma were, to say the least, disappointed.

What was striking wasn't what was said: it was the theater of saying it. The build-up demonstrated what most have long suspected: the Federal Reserve has become the fourth branch of government, with few of the resources of the other three but with as much influence on the warp and woof of society. The Chairman of the Federal Reserve – in his signaling, his cryptic utterances and Delphic statements - now has arguably more sway on American life than the Chief Justice of the Supreme Court.

It's not that anyone truly expected Bernanke to say anything of substance. After all, the risk-reward for him skews almost entirely to the risk side of the equation. Say something unwise and unexpected and the markets – susceptible as they are to uncertainty and more sensitive to change that the princess and her pea – could be roiled. Say something wise and unexpected, and there is no news and no reaction. So Bernanke did what central bankers do: say very little at great length and with great variety.

Or to be precise, he reiterated what the Federal Reserve Open Market Committee has been saying for months: the economy is recovering but is still hobbled by high unemployment; inflation is increasing because of food and fuel but in general remains in check; and low-interest rates and continued use of creative tools such as Fed purchases of U.S. treasuries remain necessary to keep the economy moving forward. Bernanke also disagreed that the Fed and the Treasury are pursuing a purposeful policy of keeping the dollar weak in order to bolster American exports (which is what the Chinese have been accusing the United States of doing), and he warned of long-term deterioration of the U.S. financial position if the government doesn't do something to get deficits and spending under control.

Perhaps the most compelling message was on employment. Two questioners probed what the Fed can do to reduce unemployment. Bernanke's most telling sound bite? “We don't have any tools for targeting long-term unemployment specifically. We can try to make the labor market work better broadly speaking.” Several Fed governors have been on record urging Congress to remove the Fed's odd dual mandate (unlike many other central banks) to strive not just for price stability (a.k.a keeping inflation and deflation at bay) but also to work for full employment. The problem is that while the Fed has immense influence over financial systems and markets, unless it starts hiring lots of people, there is little is can do beyond creating the purported conditions for employment.

As for the markets, the reaction to Ben was mostly benign. Stocks – which have been on a roll of late – reacted positively the news that there was no imminent risk that the Fed would stop injecting money into the economy. Excess money – liquidity – is the mother's milk of equities, and a generally weaker dollar is a recipe for continued high prices of oil, food and metals that trade in dollars internationally. Traders have been doing well trading global stocks and commodities, and Bernanke remarks were taken as a signal that this trade is still on. With bond yields zero (or less taking inflation into account) and Bernanke assuring markets that liquidity would remain ample, stocks should continue their upward trends – until, of course, they don't.

The trick for the Fed now is to keep everyone calm but not complacent, and to signal that one day soon but not too soon policies will change and the Fed will be less involved in supporting the markets. When you teach a kid to ride a bike, you have to let go of the bike without saying anything and hope that the child keeps riding before they freak out and realize you've let go. That's what Bernanke has to do with the markets, and it's not an enviable task.

With his blank delivery and academic patois, Bernanke fits the mold of oracular banker perfected by his revered and reviled predecessor Alan Greenspan. The markets have come to hinge on the words, signals and actions of the Fed, and as go those markets so go the collective material fortunes of us all. But the desire to imbue the Fed with that power – and the willingness of those like Bernanke to accept it – has risks. Central bankers are not neutral pullers of levers: they are human, and they make mistakes ranging from hubris to miscalculation. They may save us one month and crush us the next. Today, the markets cheered. But the downside is that tomorrow, they may jeer, or worse, fear. And this fourth estate, unelected and powerful, is unprepared for those storms.

Touted as the press conference that would make the Fed more open and transparent it was not an unexpected disappointment; Bernanke's wooden demeanour and anal delivery was completely in character. However, the above piece is also painfully constrained, EVERYBODY KNOWS the Fed owns the State, so why beat around the bush, Zach?

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