

The Betty Letters

My Dear Grandchild,

We have not had the chance, really, to talk about life and love in the past; it is high time that we did. I want to give you one piece of advice that has served me well over the years: Be proactive; not reactive. When it comes time for you to select a man to be your husband, be absolutely certain that the man that you choose is strong enough to make decisions on your behalf – before you even realise that definitive determinations are required to be made. He must be made to know, at the outset of the relationship, that it is HIS duty to think ahead and to foresee the probability of an act, being committed, or the likelihood of the omission of an important act, which could affect you, detrimentally. Do not allow your future husband to be like the Chairman of The Federal Reserve of the United States. Dr Ben Bernanke had a splendid opportunity to avert a crisis in the country, but, as the Americans would say, he flubbed the dub. In case you do not know of this matter, last Friday, the US Federal Reserve, just prior to the opening of Wall Street, put out this announcement:

‘Financial market conditions have deteriorated, and tighter credit conditions and increased uncertainty have the potential to restrain economic growth going forward. In these circumstances, although recent data suggest that the economy has continued to expand at a moderate pace, the Federal Open Market Committee judges that the downside risks to growth have increased appreciably. The Committee is monitoring the situation and is prepared to act as needed to mitigate the adverse effects on the economy arising from the disruptions in financial markets.’

The gist of the above statement was that The Fed was, as at last Friday, ‘prepared to act as needed’, indicating that it had not been prepared to act ‘as needed’ in the past. It was months and months ago that I recall Bo-Bo, telling me that if the American Government did not do something about the appalling state of the US housing market, with tens of thousands of people, being unable to meet their financial commitments to mortgage lenders, it could lead to a financial catastrophe which, in turn, could have a ripple effect around the world. He was right. Bo-Bo may have the appearance of a fat frog, but he is well able to be proactive when called upon so to do. In fact, he even went to Beijing in order to talk to some of the political bigwigs there about this matter. He was willing to lead a delegation from the Government of China in order to give advice to President George W. Bush on the matter of the US economy. (God help The Land of The Free and The Home of The Brave! It certainly needs all the help that it can get!) It appears, plainly, that Dr Ben Bernanke is reactive, not proactive. Just look at the above statement! By the way, following that

statement, The Fed did lower the Discount Rate, that is the interest rate which is charged to banks by The Fed. The announcement in respect of that move included the following:

'To promote the restoration of orderly conditions in financial markets, the Federal Reserve Board approved temporary changes to its primary credit discount window facility. The Board approved a 50 basis point reduction in the primary credit rate to 5-3/4 percent, to narrow the spread between the primary credit rate and the Federal Open Market Committee's target federal funds rate to 50 basis points. The Board is also announcing a change to the Reserve Banks' usual practices to allow the provision of term financing for as long as 30 days, renewable by the borrower. These changes will remain in place until the Federal Reserve determines that market liquidity has improved materially. These changes are designed to provide depositories with greater assurance about the cost and availability of funding ...'.

The wording of the above announcement makes it very clear that (a) there were not 'orderly conditions' in the financial markets of the US (b) the move by The Fed in cutting the Discount Rate was a 'temporary' measure and (c) the (emergency) actions of The Fed will be countermanded at the sole discretion of The Fed. The admission that The Fed's move was in response to a terrible situation in the US financial markets is, to my way of thinking, an admission of abject failure. Dr Ben Bernanke was reacting to a situation, only...and only after that situation had become very well entrenched and extremely dangerous. But it is HIS job to be proactive, not reactive. He and his people should have foreseen the probability of the worrying situation of the week, ended August 17 – because that is the duty of fidelity of The Fed and its (sometimes?) Chairman.

As soon as the chaotic situation in the US housing market became apparent, many, many months ago, The Fed should have drawn up a working paper on the basis of the worst-possible scenario and the best-possible scenario. The 2 key elements of this working paper should have included, of course:

- (1) What are the probabilities of this situation worsening? and/or,*
- (2) What are the probabilities of this situation, spilling over into other areas of the US economy and, perhaps, the world?*

The best-possible scenario would have been for somebody to come along with a magic wand and the situation would just vanish. Which leaves, only, the possibility/probability that the US housing chaos could affect other segments of the US economy. Today, there must be tens of thousands of US families which are finding it very difficult going to meet current financial commitments. Many people, no doubt, will have to declare bankruptcy. On the US equity markets, just imagine how many investors have had their entire life savings wiped out due to the collapse of certain share prices. The horror of the present situation is that it could have been either avoided or ameliorated had The Fed taken a proactive stance at the appropriate time. The trouble with academics is that they are, just that, academics. As such, they, only too often, cannot understand the psychology of the main actors in a real-life drama – until it is too late, of course. Bo-Bo is the same way, you know. As a thinker, he is acceptable, all things considered (his rotundness and his age), but there is a big difference between planning the attack on a problem and the execution of that plan. I do not doubt the academic credentials of Dr Ben Bernanke, but I do question his ability to be perspicacious and

a leader of a group of hard-nosed and extremely hard-headed bankers. Because Dr Ben Bernanke is not a strong leader of The Fed, the economy of the US will, in due course, suffer in the same manner that the President of the US, due to his inability to understand the philosophy of the East, caused countless American and Middle-Eastern lives to be lost, as well as many tens of billions of American dollars to have been squandered. That which the United States needs is an injection of Margaret Thatcherism, in my opinion. So, before you choose a mate, My Dear Grandchild, beware of the academic and the man who prefers to be reactive rather than proactive.

Talk to you, next week.

Chief Lady

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