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High-Level Fed Officials Slam Government Response to Crisis

By Global Research
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Fed Vice Chairman Donald Kohn conceded yesterday that the government's actions "will reduce [companies'] incentive to be careful in the future." In other words, he's admitting that the government's actions will encourage financial companies to make even riskier gambles in the future.

Kansas City Fed President and veteran Fed official Thomas Hoenig said:

> Too big has failed….
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> The sequence of [the government's] actions, unfortunately, has added to market uncertainty. Investors are understandably watching to see which institutions will receive public money and survive as wards of the state….
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> The U.S. Treasury has failed to take "decisive" action to address the bank crisis, pursuing an ad-hoc approach that leaves management in place and avoids necessary asset writedowns….
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> Any financial crisis leaves a stream of losses among the various participants, and these losses must ultimately be borne by someone. To start the resolution process, management responsible for the problems must be replaced and the losses identified and taken. Until these actions are taken, there is little chance to restore market confidence and get credit markets flowing. It is not a question of avoiding these losses, but one of how soon we will take them and get on to the process of recovery….
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> Many of the [government's current policy revolves around the idea of] "too big to fail" …. History, however, may show us a different experience. When examining previous financial crises, both in other countries as well as the United States, large institutions have been allowed to fail. Banking authorities have been successful in placing new and more responsible managers and directions in charge and then reprivatizing them. There is also evidence suggesting that countries that have tried to avoid taking such steps have been much slower to recover, and the ultimate cost to taxpayers has been larger. …
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> Even large banks can be dealt with in a way in a manner which imposes market discipline on management and stockholders, while controlling taxpayer losses….
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> Banking regulators need to be willing to write down losses, bring in new managers and sell off businesses if institutions can't survive on their own, no matter what their size.

The current head of the Philadelphia fed bank, Charles Plosser, disagrees with Bernanke's strategy of the endless printing-press and ever-increasing fed balance sheet:

> Plosser urged the Fed to "proceed with caution" with the new policy. Others outside the Fed are much more strident and want plans in place immediately to reverse it. They believe an inflation storm is already in train.***
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> Bernanke argued that focusing on the size of the balance sheet misses the point, arguing the Fed's various asset purchase programs are not easily summarized in a single number.
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> But Plosser said that the growth of the Fed's balance sheet was a key metric.
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> "It is not appropriate to ignore quantitative metrics in this new policy environment," Plosser said.***
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> Plosser is bringing the spotlight right back to the Fed's balance sheet.
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> "The size of the balance sheet does offer a possible nominal anchor for monitoring the volume of our liquidity provisions," Plosser said.

The former head of the Fed's Open Market Operations says the bailout might make things worse. Specifically, the former head of the Fed's open market operation – the key Fed agency which has been loaning hundreds of billions of dollars to Wall Street companies and banks – was quoted in Bloomberg as saying:

> "Every time you tinker with this delicate system even small changes can create big ripples," said Dino Kos, former head of the New York Fed's open-market operations . . . "This is the impossible situation they are in. The risks are that the government's $700 billion purchase of assets disturbs markets even more."

And William Poole, who recently left his post as president of the St. Louis Fed, is essentially calling Bernanke a communist:

> Poole said he was very concerned that the Fed could simply lend money to anyone, without constraint.
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> In the Soviet Union and Eastern Europe during the Cold War era, economies were inefficient because they had a soft-budget constraint. If a firm got into trouble, the banking system would give them more money, Poole said.
>
> The current situation at the Fed seems eerily similar, he said.
>
> "What is discipline – where are the hard choices – when does Fed say our resources are exhausted?" Poole asked.

But the strongest criticism may be from the former Vice President of Dallas Federal Reserve, who said that the failure of the government to provide more information about the bailout could signal corruption. As ABC writes:

> Gerald O'Driscoll, a former vice president at the Federal Reserve Bank of Dallas

and a senior fellow at the Cato Institute, a libertarian think tank, said he worried that the failure of the government to provide more information about its rescue spending could signal corruption.

"Nontransparency in government programs is always associated with corruption in other countries, so I don't see why it wouldn't be here," he said.

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