WSJ:Bernanke: U.S. Eforts Have Failed To Produce Recovery With "Sufficient Vigor'

By Jon Hilsenrath and Luca Di Leo

Federal Reserve Chairman Ben Bernanke took a moment Friday in a largely academic speech on lessons learned from the financial crisis to reiterate his dissatisfaction with the course of the recovery.

"Although financial markets are for the most part functioning normally now, a concerted policy effort has so far not produced an economic recovery of sufficient vigor to significantly reduce the high level of unemployment," he said in comments prepared for delivery at a conference at Princeton University, where he taught from 1985 to 2002.

After its Sept. 21 policy meeting, the Fed said it was prepared to take new steps to quicken the pace of economic growth if needed, mostly likely purchasing more U.S. Treasury securities to drive down long-term interest rates and encourage borrowing. The Fed chairman's expression of dissatisfaction with the recovery and with stubbornly high unemployment could help reinforce a view among investors that the Fed is on course to act in the months ahead.

(This story and related background material will be available on The Wall Street Journal Web site, WSJ.com.)

Bernanke touched only glancingly on the subject of securities purchases, saying only that economists needed to do more research on their impact. One of the Fed's big challenges today is predicting the impact on markets and the economy should it revive its asset-purchase program. The Fed purchased about $1.7 trillion in Treasury and mortgage-backed securities in 2009 and early this year; it is now buying only enough U.S. Treasurys to offset the shrinking of its mortgage-backed securities portfolio because of refinancing and maturing mortgages. Bernanke and like-minded Fed officials believe its purchases pushed down long-term rates substantially.

Much of ernanke's talk focused on defending the economics profession from criticism that its theories were among the culprits that led to the financial crisis and recession. Bad economic theories weren't the cause; it was bad management of the economy, he argued. "Calls for a radical reworking of the field go too far," he said.

One of the profession's biggest critics is Bernanke's former colleague, Princeton professor Paul Krugman, who has argued that the profession became too enamored with ideas that idealized markets. Bernanke countered that longstanding economic theories helped policy makers understand runs on financial institutions and mispricing of mortgage-backed securities.

But he also acknowledged many failings, particularly those of forecasters. "Almost universally, economists failed to predict the nature, timing, or severity of the crisis," Mr. Bernanke said. "Those few who issued early warnings generally identified only isolated weaknesses in the system, not anything approaching the full set of complex linkages and mechanisms that amplified the initial shocks and ultimately resulted in a devastating global crisis and recession."

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