Fed members feeling less gloomy

Ex-Fed member: 'We walked away from the big one'

By Jeannine Aversa
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JACKSON, Wyo. — You could almost hear the sigh of relief.

Last year, a sense of foreboding hung in the air at the Federal Reserve's annual summer conference.

The worst financial crisis since the Great Depression was about to hijack the global financial system. Fed officials and their counterparts around the world huddled to weigh the threat.

Mortgage giants Fannie Mae and Freddie Mac were soon to topple. A dying Bear Stearns, with the Fed's help, had already fallen into the arms of JPMorgan Chase.

What a difference a year makes.

This time, Federal Reserve Chairman Ben Bernanke, his counterparts in other countries, economists and academics, finally exhaled.

No one thinks the United States and the world economy are home-free. Grave threats remain throughout the financial system.

But was it just an illusion that policymakers seemed to gulp the fresh mountain air more hungrily than before?

This year, the mood is "a hell of a lot better," agreed Frederic Mishkin, a former Fed member and now a professor at Columbia University's Graduate School of Business.

"To me, there's a sense of relief. We walked away from the big one."

The big one struck with brutal force in September. Lending — the lifeblood of economic activity — nearly halted around the industrialized world. Credit problems and financial turmoil spread rapidly.

The Fed, working with other central banks, slashed interest rates to near zero, and rolled out emergency lending programs to battle the crisis. The United States and other governments stepped in with huge spending packages to stimulate activity.

The extraordinary steps are credited with helping pull the United States and the global economy from the edge of disaster. But they've drawn attacks, too. Critics say Bernanke's aggressive interventions politicized the Fed, threatening its independence and giving big banks a green light to take huge gambles at taxpayer risk.

Such issues sparked a buzz this week in the hallways and during coffee breaks.

So did the high-stakes matter of when and how the Fed should reel in the trillions of dollars it's pumped into the financial system.

But members were able to carry on without the dread that enveloped the 2008 gathering.

Fed members "can hike on the trails this year without worrying about something catastrophic happening," said Laurence Meyer, a former Fed member and now vice chairman of Macroeconomic Advisers.

On Thursday, Bernanke, clad in jeans and a red Washington Nationals baseball cap, took a nearly two-hour hike at the Grand Teton National Park with fellow Fed members Donald Kohn and Kevin Warsh.

And on Friday morning, Bernanke — in dark suit, crisp white shirt and blue tie — took a brief stroll with Jean-Claude Trichet, president of the European Central Bank, and Masaaki Shirakawa, governor of the Bank of Japan. The snowcapped mountains and clear blue sky sketched a breathtaking backdrop.

This year's atmosphere is "absolutely, dramatically

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different," Meyer observed. "Last year, there was a sense that if we weren't on the edge of abyss, we were close to it. There was a lot of trepidation and there was no sense of the success of policies."

There's confidence now that a second Great Depression has been averted. And there's a whiff of self-satisfaction among policymakers about it. This time, most debates focused on how strong the recovery will turn out to be.

Conversation around the dinner table also was a bit more whimsical, and lighter. Talk of the grizzly bear spotted on the side of a road, feasting on the carcass of some unidentified dead animal, made its rounds.

In a speech, Stanley Fischer, governor of the Bank of Israel, said it's "reasonable to declare that the worst of the crisis is behind us." But he also warned that policymakers can't afford to let down their guard.

Still, Bernanke struck his most optimistic tone since the crisis broke, saying in a speech that we have "avoided the worst" and that the global economy is "beginning to emerge" from the recession.

His fellow participants were pleased to hear it.