Bernanke Optimistic On Long-Term Economic Growth

Marting Crutsinger, AP Economics Writer

WASHINGTON (AP) — Federal Reserve Chairman Ben Bernanke said Thursday that he thinks the U.S. economy will return to its long-term growth of around 3 percent a year despite the weaknesses it still faces.

Bernanke made his observation in his fourth and final lecture to George Washington University students. The lectures this month have been intended to both demystify the Fed and defend the steps it took to confront the 2008 financial crisis and the Great Recession.

The Fed chairman showed the students a chart illustrating that annual U.S. economic growth over the past century has been about 3 percent. Since the recession ended in 2009, the economy has averaged about 2.5 percent growth.

Some economists have raised the possibility that the economy's weakness since the financial crisis hit could persist for years. Bernanke said he was more optimistic.

"I think there's a reasonable chance, looking at the long-run history, that the U.S. economy will return to healthy growth, somewhere in the 3 percent range," Bernanke said.

Bernanke didn't say when he thought the U.S. economy would return to its normal growth rate. The government reported Thursday that the economy did grow at a 3 percent rate in the final three months of 2011. But economists believe that growth slowed to around 2 percent in the first three months of this year.

In his final lecture, Bernanke explained how the Fed drove a key interest rate it controls to a record low near zero in December 2008 — and then took unconventional steps to try to help the economy recover from the financial crisis and recession. Among the actions it took were two rounds of bond buying totaling more than $2 trillion. The goal was to drive down long-term rates to encourage borrowing and spending.

Many investors hope the Fed will launch a third round of bond buying later this year. Bernanke offered no hints about the Fed's intentions. But he defended the bond purchases, which critics say have heightened the risk of high inflation later.

Bernanke noted that the Fed has the power to create money and can withdraw the money from the banking system once the economy no longer needs the support.

And when the Fed holds Treasury bonds, it earns interest on the investments, he noted. That helps reduce the federal budget deficit: The Fed returns to the Treasury earnings it receives beyond the cost of operating the central bank.

Bernanke explained the sweeping overhaul of financial regulation known as the Dodd-Frank Act. Congress passed the law in 2010 in an effort to repair the regulatory failings exposed by the financial crisis.

The Fed chairman said he thought the law had addressed the most serious problems. But he also said another financial crisis is "probably unavoidable."

"We've had financial crises for 600 years in the Western world," Bernanke said. "Periodically, there are going to be bubbles or other instabilities in the financial system."

In his four lectures at GW, Bernanke spent five hours and used more than 200 PowerPoint slides to address 30 undergraduate students. The class was assembled from among 80 applicants who had written essays on what they hoped to learn from the course.

Bernanke spent his career as an economics professor before coming to Washington. His staff had approached GW late last year about allowing Bernanke to speak in an academic setting about the approaches the Fed used to deal with the financial crisis.

The lectures also gave Bernanke his latest platform to counter criticism that under his leadership, the Fed's efforts to boost growth have heightened the risk of high inflation. Bernanke and his defenders argue that the Fed's extraordinary efforts helped save the financial system and cushioned the impact of the Great Recession.

At the end of Thursday's class, the students presented Bernanke with a framed original front page of The New York Times reporting in 1933 that the United States had gone off the gold standard during the Great Depression, an event that Bernanke had covered in his lectures.