Bernanke: Fed Policies To Help Emerging Markets

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Chairman Ben Bernanke is rejecting arguments that the Federal Reserve's bold moves to bolster U.S. job growth could have unwanted consequences in emerging market countries.

In a speech Sunday, Bernanke disagreed with criticism that the Fed's efforts to drive U.S. interest rates lower could result in higher inflation in emerging markets or trigger a destabilizing flood of investment money into those nations.

In fact, he said, the efforts of the Fed and the central banks of other industrial countries should benefit the global economy by boosting growth and providing stronger markets for the goods of developing nations.

Bernanke's speech in Tokyo was at a conference sponsored by the Bank of Japan and the International Monetary Fund.

At its September meeting, the Fed announced it was launching a program to buy $40 billion each month in mortgage-backed securities as a way to drive interest rates lower and give a boost to the housing market. Increased home sales could help spur hiring and accelerate economic growth.

The Fed also extended its time frame for keeping rates low to at least mid-2015 and said rates would remain low even after the U.S. economy begins growing at a stronger pace. That effort will continue until it sees substantial gains in the U.S. job market, the Fed said.

In his speech Sunday, Bernanke said the Fed's effort "not only helps strengthen the U.S. economic recovery, but by boosting U.S. spending and growth, it has the effect of helping support the global economy as well."

Some foreign officials have been critical of the Fed's policy, arguing that extraordinarily low U.S. interest rates will end up giving the United States trade advantages by weakening the value of the U.S. dollar. A cheaper dollar makes U.S. goods less expensive in other countries.

But Bernanke said that the dollar's value against the currencies of emerging market economies has changed little during the Fed's prolonged period of credit easing in the United States.

Bernanke also disputed criticism that low interest rates in the United States and other industrial nations were contributing to destabilizing investment flows to emerging economies that could make inflation worse in those nations.

He said he doesn't believe that interest-rate polices at the Fed and other developed nations necessarily dictate capital flows. And Bernanke said there are a number of ways that developing nations can control these investment flows to prevent asset bubbles or higher inflation.

For instance, a nation could allow the value of its currency to rise as foreign capital flows in. But Bernanke said that some emerging market economies have chosen to keep the value of their currencies low to gain trade advantages. He didn't name any country in his speech, but U.S. manufacturers contend that China is manipulating its currency to keep its value low against the dollar to boost its exports and make American goods more expensive in China.

Bernanke said, "The perceived advantages of undervaluation and the problem of unwanted capital inflows must be understood as a package — you can't have one without the other."

The Fed isn't expected to announce any major moves when it next meets on Oct. 23-24. Most analysts believe the central bank prefers to wait and monitor the impact of the September actions.

Bernanke was in Tokyo to attend the annual meetings of the International Monetary Fund and the World Bank. Copies of his speech were distributed in Washington.