

Rate Cut Has Foes on Main Street

Some Americans Think Fed Should Avoid
The 'Hazard' of Bailing Out Speculators

By GREG IP

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As the Federal Reserve prepares to meet today to decide whether to lower interest rates, there is an unusual public clamor in the background: Don't do it.



Ben Bernanke

With a freeze-up in financial markets threatening to turn the nation's housing slump into a broader economic downturn, Fed officials have strongly hinted they are inclined to cut the central bank's main target for short-term rates from the current 5.25%. Wall Street expects a cut of a quarter or a half percentage point.

But, in an unscientific reader poll by The Wall Street Journal's online edition, 39% of the nearly 3,000 responses said the Fed shouldn't cut rates at all. The poll was anonymous.

Ordinarily, Americans welcome lower interest rates. But many feel differently this time. Some think the economy is fine and inflation is the main danger. But a moral element is also at work: Many think a rate cut would reward foolish speculation and Wall Street greed at the expense of the thrifty.

"The Federal Reserve needs to stand its ground and not bail out hedge funds -- they should have known better to begin with!" Suzanne Mitchell, an administrative assistant at a Houston real-estate company, says in an email. In an interview, she adds: "I'm very sorry that people took out \$450,000 mortgages with no money down...people ought to be responsible for the loans they take out."

¹ REAL TIME ECONOMICS

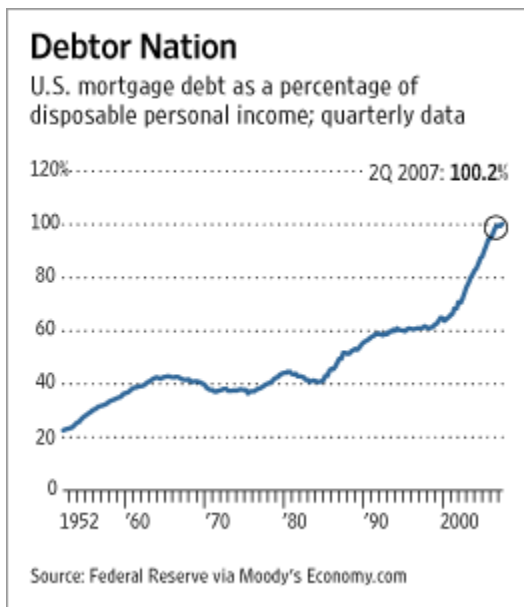
• [See excerpts](#)² from Ben Bernanke's 2005 interview with East Carolina University's Randall Parker about the Great Depression.

"To delay the day of reckoning only undermines the integrity of our system," agrees Dave Brason, co-owner of a company that runs home health-care centers in Ohio and upstate New York. He opposes a rate cut even though it would benefit him personally: His company needs to borrow about \$20 million to close the purchase of another company for more than \$40 million.

But Mr. Brason contrasts that with the far greater reliance on borrowed money that is typical nowadays. Some "of us...weren't buying up five or 10 properties without any money down," he says. "People took the risks and should pay the price. A lot of others at

the higher end of the food chain, the investment bankers and hedge-fund managers were making oodles of fee-income money and frankly, there's a lot of public opinion that it was excessive."

Fed officials share some of the public's concern that a rate cut could encourage more reckless risk taking, a tendency called "moral hazard." The Fed must allow "necessary corrections in asset prices," Federal Reserve Bank of Philadelphia President Charles Plosser said in a speech earlier this month. "To do otherwise would risk misallocating resources and risk-bearing, as well as raise moral-hazard problems. This could ultimately increase, rather than reduce, risks to the financial system."



Yet Fed officials don't want such concerns to override the economy's general health, any more than the fire department would let a town burn down merely to discourage smoking in bed. "It is not the responsibility of the Federal Reserve -- nor would it be appropriate -- to protect lenders and investors from the consequences of their financial decisions," Chairman Ben Bernanke said last month. But financial developments can reverberate through the broader economy, and the Fed "must take those effects into account," he said.

During the Great Depression, Treasury Secretary Andrew Mellon advised President Herbert Hoover: "Liquidate labor, liquidate stocks, liquidate real estate. It will purge the rottenness

out of the system...People will work harder, lead a more moral life," according to Mr. Hoover's memoirs.

In an interview with academic economist Randall Parker in 2005, Mr. Bernanke, then a Fed governor, said, "To some extent the Fed may have agreed with Andrew Mellon that liquidation was the prelude to a healthy recovery, that you had to get rid of the deadwood and the excesses of the 1920s. There clearly was some view that it was good for the system in the long run to allow the weaker banks to fail."

But Mr. Bernanke said the Fed had been created to lend to banks facing sudden outflows of deposits. Mr. Bernanke, a longtime Depression scholar, went on to cite "classic central-banking theory" that the Fed should accommodate such outflows of cash, according to a transcript in Mr. Parker's book "The Economics of the Great Depression."