

## Viewpoints

September 2009

This blog was originally published on [ftalphaville.ft.com](http://ftalphaville.ft.com) on August 25, 2009.

### **Bernanke's Four Point "To-Do" List**

By Mohamed El-Erian

August 25, 2009

President Obama's announcement reappointing Fed Chairman Bernanke for a second four-year term does, and should, command broad based support.

Bernanke has played a major role in designing and implementing policies that averted an even larger global destruction of jobs and living standards around the world. Indeed, crisis management has defined Bernanke's first term. His second term promises to be equally challenging as it will be defined by four major issues.

First, Bernanke will have to navigate the "how" and "when" of exiting from an unprecedented set of unconventional Fed policies. As Nouriel Roubini detailed in Monday's Financial Times, this is no easy task. Too early an exit would push the U.S. back into recession; and the more likely outcome of overstaying in the current policy regime would risk inflation down the road and undermine the proper functioning of some markets.

Second, Bernanke will have to defend the institutional integrity of the Fed. Politicians have woken up to the fact that the institution has enormous power to conduct the analytical equivalent of fiscal policies that normally fall under the domain of the executive and legislative branches of governments. The natural political tendency today is to limit the future ability of the Fed to respond in this way. While understandable, ill-designed and politically-driven reactions could result in more harm than good.

Third, Bernanke will have to revamp the operational focus of the Fed in the context of a major regulatory reform effort. Up until now, the focus has been on whether, in the balkanized world of U.S. regulators, the institution should be the chief regulator. Bernanke will have to also lead the Fed into an operational regime where asset prices are better incorporated in the design of the policy reaction function. Indeed, if the erosion of the U.S. global standing continues, Bernanke may also have to worry more about the impact of exchange rate changes.

Fourth, Bernanke will have to play an important role in the multi-agency, and hopefully cross-border design of better crisis prevention measures. Together with other policy makers, he will have to strike the right balance between prudential steps that curtail systemic risk and steps that would excessively undermine the channeling of credit to productive activities.

None of these issues is easy to deal with on a standalone basis; and together they constitute a significant policy challenge. They will define Bernanke's second term, requiring from him a tremendous degree of intellectual rigor, political savvy, steadfast commitment, and leadership. Based on the achievements of his first term, Bernanke is well placed to address yet another set of difficult challenges.

## Viewpoints

September 2009

### About the author:

Dr. El-Erian is CEO and co-CIO of PIMCO and is based in the Newport Beach office. He re-joined PIMCO in 2008 after serving for two years as president and CEO of Harvard Management Company, the entity that manages Harvard's endowment and related accounts. Dr. El-Erian also served as a member of the faculty of Harvard Business School. He first joined PIMCO in 1999 and was a senior member of PIMCO's portfolio management and investment strategy group. Before coming to PIMCO, Dr. El-Erian was a managing director at Salomon Smith Barney/Citigroup in London and before that, he spent 15 years at the International Monetary Fund in Washington, D.C. Dr. El-Erian has published widely on international economic and finance topics. His book, *When Markets Collide*, was a New York Times and Wall Street Journal bestseller and won the Financial Times/Goldman Sachs 2008 Business Book of the Year. Dr. El-Erian has served on several boards and committees, including the U.S. Treasury Borrowing Advisory Committee, the International Center for Research on Women, and the IMF's Committee of Eminent Persons. He is currently a board member of the NBER and the Peterson Institute for International Economics. He holds a master's degree and doctorate in economics from Oxford University and received his undergraduate degree from Cambridge University.

### **PIMCO Japan Ltd**

Toranomon Towers Office 18F  
4-1-28, Toranomon, Minato-ku  
Tokyo, Japan 105-0001  
813-5777-8150

Financial Instruments Business Registration Number: Director of Kanto Local Finance Bureau  
(Financial Instruments Firm) No.382  
Member of Japan Securities Investment Advisers Association and Investment Trusts Association

Investment management products and services offered by PIMCO Japan Ltd are offered only to persons within its respective jurisdiction, and are not available to persons where provision of such products or services is unauthorized.

This material contains the current opinions of the author but not necessarily those of the PIMCO and does not represent a recommendation of any particular security strategy, or investment product. The author's opinions are subject to change without notice. Information contained herein has been obtained from sources believed to be reliable, but not guaranteed. This material is distributed for informational purposes and should not be considered as investment advice or an offer of any security for sale.

The value of assets under management will be affected by, and fluctuate based upon, movements in prices of securities in the portfolio, financial market conditions, interest rates, and credit risk arising from changes in the financial condition of issuers of securities in the portfolio, among others. Where investments are made in foreign currency denominated assets, the value of the assets will also be affected by movements in foreign exchange rates. All profits and losses resulting from investments are for the account of the investor. Thus, there is no guarantee that the principal amount of the investment will be preserved, or that a certain return will be realized; rather, the investment could suffer a loss. The fee charged for our activities related to the financial instruments business will vary depending on the investment trust acquired or the investment advisory agreement entered into, and thus these materials do not set forth specific fee amounts or their calculation methodologies.

No part of this material may be reproduced in any form, or referred to in any other publication, without express written permission. ©2009, PIMCO. Date of original publication August 25, 2009.