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Ben Bernanke

By Michael Grunwald

A bald man with a gray beard and tired eyes is sitting in his oversize Washington office, talking about the economy. He doesn't have a commanding presence. He isn't a mesmerizing speaker. He has none of the look-at-me swagger or listen-to-me charisma so common among men with oversize Washington offices. His arguments aren't partisan or ideological; they're methodical, grounded in data and the latest academic literature. When he doesn't know something, he doesn't bluster or bluff. He's professorial, which makes sense, because he spent most of his career as a professor.

He is not, in other words, a typical Beltway power broker. He's shy. He doesn't do the D.C. dinner-party circuit; h prefers to eat at home with his wife, who still makes him do the dishes and take out the trash. Then they do crosswords or read. Because Ben Bernanke is a nerd. (See pictures of Ben Bernanke's life from childhood to chairmanship.)

He just happens to be the most powerful nerd on the planet.

Bernanke is the 56-year-old chairman of the Federal Reserve, the central bank of the U.S., the most important an least understood force shaping the American — and global — economy. Those green bills featuring dead Presidents are labeled federal reserve note for a reason: the Fed controls the money supply. It is an independent government agency that conducts monetary policy, which means it sets short-term interest rates — which means it has immense influence over inflation, unemployment, the strength of the dollar and the strength of your wallet And ever since global credit markets began imploding, its mild-mannered chairman has dramatically expanded those powers and reinvented the Fed.

Professor Bernanke of Princeton was a leading scholar of the Great Depression. He knew how the passive Fed of the 1930s helped create the calamity — through its stubborn refusal to expand the money supply and its tragic lack of imagination and experimentation. Chairman Bernanke of Washington was determined not to be the Fed chairman who presided over Depression 2.0. So when turbulence in U.S. housing markets metastasized into the worst global financial crisis in more than 75 years, he conjured up trillions of new dollars and blasted them into the economy; engineered massive public rescues of failing private companies; ratcheted down interest rates to zero; lent to mutual funds, hedge funds, foreign banks, investment banks, manufacturers, insurers and other borrowers who had never dreamed of receiving Fed cash; jump-started stalled credit markets in everything from car loans to corporate paper; revolutionized housing finance with a breathtaking shopping spree for mortgage bonds; blew up the Fed's balance sheet to three times its previous size; and generally transformed the staid arena of central banking into a stage for desperate improvisation. He didn't just reshape U.S. monetary policy; he led an effort to save the world economy. (See pictures of the Federal Reserve Bank's history.)

No wonder his eyes look tired.

The last Fed chair, Alan Greenspan, inspired an odd cult of personality. Bernanke hoped to return the Fed to dull obscurity. But his aggressive steps to avert doomsday — and his unusually close partnerships with Bush and Obama Treasury Secretaries Henry Paulson and Timothy Geithner — have exposed him and his institution to criticism from all directions. He's Bailout Ben, the patron saint of Wall Street greedheads, or King Ben, the unelected czar of a fourth branch of government. He's soft on inflation, bombarding the country with easy money, or soft on unemployment, ignoring Main Street's cries for even more aggressive action. Bleeding-heart liberals and tea-party reactionaries alike are trying to block his appointment for a second four-year term. Libertarian Congressman Ron Paul is peddling a best seller titled *End the Fed*. And Congress is considering bills that could strip the Fed of some of its power and independence. (Watch the video "Why TIME Chose Ben Bernanke.")

So here he is inside his marble fortress, a technocrat in an ink-stained shirt and an off-the-rack suit, explaining what he's done, where we are and what might happen next.

He knows that the economy is awful, that 10% unemployment is much too high, that Wall Street bankers are greedy ingrates, that Main Street still hurts. Banks are handing out sweet bonuses again but still aren't doing much lending. Technically, the recession is over, but growth has been anemic and heavily reliant on government programs like Cash for Clunkers, not to mention cheap Fed money. "I understand why people are frustrated. I'm frustrated too," Bernanke says. "I'm not one of those people who look at this as some kind of video game. I come from Main Street, from a small town that's really depressed. This is all very real to me."

But Bernanke also knows the economy would be much, much worse if the Fed had not taken such extreme measures to stop the panic. There's a vast difference between 10% and 25% unemployment, between anemic and negative growth. He wishes Americans understood that he helped save the irresponsible giants of Wall Street only to protect ordinary folks on Main Street. He knows better than anyone how financial crises spiral into global disasters, how the grass gets crushed when elephants fall. "We came very, very close to a depression ... The markets were in anaphylactic shock," he told Time during one of three extended interviews. "I'm not happy with where we are, but it's a lot better than where we could be." (See pictures of Ben Bernanke's office.)

Bernanke also has thoughts about the economy's future — and we'll get to them soon. First, though, we should explain why his face is on the cover of this issue. The overriding story of 2009 was the economy — the lousiness of it, and the fact that it wasn't far lousier. It was a year of escalating layoffs, bankruptcies and foreclosures, the "new frugality" and the "new normal." It was also a year of green shoots, a rebounding Dow and a fragile sense that the worst is over. Even the big political stories of 2009 — the struggles of the Democrats; the tea-party takeover of the Republicans; the stimulus; the deficit; GM and Chrysler; the backlash over bailouts and bonuses; the furious debates over health care, energy and financial regulation; the constant drumbeat of jobs, jobs, jobs — were, at heart, stories about the economy. And it's Bernanke's economy.

In 2009, Bernanke hurled unprecedented amounts of money into the banking system in unprecedented ways, while starting to lay the groundwork for the Fed's eventual return to normality. He helped oversee the financial stress tests that finally calmed the markets, while launching a groundbreaking public relations campaign to demystify the Fed. Now that Obama has decided to keep him in his job, he has become a lightning rod in an intense national debate over the Fed as it approaches its second century.

But the main reason Ben Shalom Bernanke is TIME's Person of the Year for 2009 is that he is the most important player guiding the world's most important economy. His creative leadership helped ensure that 2009 was a period of weak recovery rather than catastrophic depression, and he still wields unrivaled power over our money, our jobs, our savings and our national future. The decisions he has made, and those he has yet to make, will shape the path of our prosperity, the direction of our politics and our relationship to the world.

See 25 people who mattered in 2009.

See what the selection meant to past Persons of the Year.

The Man from Main Street

Before George W. Bush brought him to Washington, Bernanke's only political experience was on his local school board. His friends didn't even know he was a Republican. His only leadership experience was chairing Princeton's economics department; he liked to joke that his major decisions involved what type of bagels to order for faculty meetings. Even after he took over the Fed, he never expected all this drama — which is to say he utterly failed to foresee the global financial implosion. But when credit markets disintegrated, he had the ideal background to respond. "It's like a novel," marvels Fed governor Daniel Tarullo. "It was the right man in the right place at the right time." It was as if his entire life had been preparation for this crisis.

Ben Bernanke was the smartest kid in Dillon, S.C., a small farming town on the Little Pee Dee River, which smelled like tobacco. His mother Edna was a teacher; his father Phil was a pharmacist. Ben inherited their love of learning. "He always wanted me to read to him," Edna recalls. "Then one day he said, Hey, I can read myself!'" He skipped first grade. He won the state spelling bee in sixth grade, though he botched edelweiss at the nationals in Washington, presumably because *The Sound of Music* hadn't made it to Dillon. In high school, he taught himself calculus. (See more pictures of Ben Bernanke.)

It was the Depression that lured the family to Dillon. Phil's father Jonas Bernanke, an Austro-Hungarian army officer in World War I, had been struggling in the drugstore business in New York City after the stock-market crash of 1929. Credit was tight. Customers were broke. So when he saw an ad for a pharmacy for sale in Dillon, he decided to make a new start in the South. The Jay Bee Drug Co., named for his initials, became a local fixture, an old-fashioned family business on, yes, Main Street.

Today Bernanke tends to romanticize Dillon, emphasizing his Main Street middle-class roots. He says his summer jobs working construction at a hospital and waiting tables at the South of the Border tourist trap helped him appreciate working-class values. But as a kid, he couldn't wait to get out. "Me and Dillon," he sighs. "It's a funny psychodrama." The Bernankes were outsiders, an observant Jewish family in a tight-knit Christian community where social life revolved around church, running one of the few businesses that would extend credit to blacks. Dillon's schools were segregated until Bernanke's senior year, inspiring him to write a *Remember the Titans*–style novel about an integrated football team when he was a teenager. Once, his house was egged after he ate dinner with a black friend named Kenneth Manning at the local Shoney's.

Really, though, Bernanke wanted out of Dillon not because it was hostile but because it was confining. "It was a provincial Southern town, and anybody with any sense could see that Ben was unbelievably bright," says his old friend Manning, another restless intellect, who attended college and graduate school at Harvard and is now a professor at MIT. As a boy, Ben wrote poetry about a humble but clever snail who outwits a stuck-up rabbit. ("You shouldn't be so proud of speed. It's a very bad habit!") In a culture where the quarterback was king, Bernanke was an awkward geek who played alto sax in the marching band. It was Manning who showed the way out, telling him about Harvard, pestering him to apply. "I didn't want him to waste all that talent," Manning says. (See little known facts about past Persons of the Year.)

At Harvard, Bernanke discovered that he could no longer get straight A's without studying; self-taught calculus was not ideal preparation for advanced mathematics. He ditched three majors — math, physics and English — before settling on economics. But he quickly became an academic star, eventually graduating summa cum laude and pursuing his doctorate at MIT. "He was substantially the same guy he is today — very quiet, very serious, very, very capable," recalls his MIT adviser, Stanley Fischer, who is now Israel's central banker. "He didn't try to do fancy or complex work just to show off. He wanted to answer real questions." Bernanke went on to teach at Stanford, then received tenure at Princeton when he was only 31, but he was never the kind of smart guy who needed to remind everyone how smart he was. "He came across as modest and unassuming then, and he still does," says Mervyn King, who had an office next to Bernanke's when they were young professors and is now Britain's central banker. "He's always been a scholar's scholar."

Bernanke's life as a scholar was fairly typical. He married a fellow bookworm, Anna, a teacher who is now planning a school for underprivileged kids in Maryland. They have two children, a son in medical school and a daughter who just finished college. Bernanke got sucked into academic politics, chairing his fractious department for six long years. Aside from his bagel-related responsibilities, he helped launch a center for finance studies, recruited top-notch economists and dissuaded them from bludgeoning one another. Anna even persuaded him to serve two terms on the school board, where he helped stop angry antitax activists from stripping funding for education. What was interesting about Bernanke's life as a scholar — especially considering what came next — was his scholarship.

See TIME's 2008 Person of the Year: Barack Obama.

See pictures of Person of the Year 2009 runner-up Nancy Pelosi.

The Depression Buff

Bernanke says his first spark of interest in the Great Depression came as a boy listening to his mother's parents on their porch in Charlotte, N.C., where his grandfather was a kosher butcher. Their family had survived pogroms in Lithuania, but the story that captivated Bernanke involved a town full of shoe factories that closed during the Depression, leaving the community so poor that its children went barefoot. "I kept asking, Why didn't they just open the factories and make the kids shoes?'" he recalls. He would devote his career to questions like that.

Bernanke calls the Depression "the holy grail of macroeconomics," the ultimate intellectual challenge. To understand geology, he says, study earthquakes; to understand the economy, study the Depression. "I don't know why there aren't more Depression buffs," he wrote in a book of essays about the period. "The Depression was an incredibly dramatic episode — an era of stock-market crashes, breadlines, bank runs and wild currency speculation, with the storm clouds of war gathering ominously in the background... For my money, few periods are so replete with human interest." (See a graphic about past Persons of the Year.)

The first thing any Depression scholar comes to understand is that nothing — not hyperinflation, megadeficits or irked Chinese creditors — is as bad as a full-on Depression. A collapse in the "aggregate demand" for goods and services that makes an economy hum can be irreversible. Businesses fail, so workers lose jobs, so consumer spending declines, so more businesses fail. Depression scholars — including Bernanke — tend to see the Hoover Administration's approach of balancing budgets and tightening belts during the downturn as a tragic mistake. They embrace the Keynesian view that aggressive government action backed by government money is needed to reverse death spirals by restoring confidence and reviving demand. Get people money, and they can buy shoes for their barefoot kids, so shoe factories can reopen and rehire, which gets more people money. "People saw the Depression as a necessary thing — a chance to squeeze out the excesses, get back to Puritan morality," Bernanke says. "That just made things worse." In contrast, the Roosevelt Administration's New Deal stimulus and try-everything attitude made real, albeit uneven, progress against the downturn.

But Bernanke's main academic focus was the central role of monetary policy and the Fed in creating the catastrophe. So let's take a moment for a quick Fed primer. The Fed's central function is its dual mandate to steer the economy toward stable prices and maximum employment through monetary policy. To rev up a weak economy, it can lower interest rates by buying Treasury bonds or other safe securities, essentially printing money and dumping it into the banking system with a mouse click. Loose money can encourage banks to lend and firms to hire. This tends to make people happy but can increase inflation risks and weaken the dollar, which can make markets nervous and destroy the value of savings. Loose money can also provide the fuel for financial explosions by incentivizing wild risk-taking. Conversely, to apply brakes to an overheated economy and guard against inflation and asset bubbles, the Fed can raise interest rates by selling securities and contracting the money supply — as the saying goes, taking away the punch bowl as the party starts. (See pictures of the Federal Reserve Bank's history.)

The Fed is also the nation's lender of last resort during financial panics, the original rationale for its creation in 1913. Traditional banks serve a vital economic function, providing safe places to park savings, then lending out the deposits so that borrowers can buy homes, start businesses and put the money to work. But banks are inherently vulnerable to breakdowns in confidence: when nervous depositors rush to withdraw their cash, even a solvent bank can run low on ready funds, which only intensifies the panic. After J.P. Morgan had to organize a private cash infusion to quell a 1907 panic, financiers persuaded Congress to create a central bank that could lend emergency money to stop runs, so that illiquid but otherwise healthy institutions wouldn't have to shut their doors.

Unfortunately, the Fed's leaders didn't comply after the Great Crash in 1929. Instead of lending freely, they let one-third of the nation's banks fail. Instead of lowering interest rates and expanding the money supply to spur the economy, they raised rates and tightened money, obsessing over inflation and the dollar's strength when they should have worried about deflation and runaway unemployment. Bernanke was deeply influenced by economist Milton Friedman's critiques of the Fed, and after joining its board in 2002, he apologized on its behalf at Friedman's 90th birthday party: "Regarding the Depression: You're right. We did it. But thanks to you, we won't do it again." (Watch the video "Why TIME Chose Ben Bernanke.")

Bernanke's research added key nuances to the blame-the-Fed thesis. He showed that the Depression was caused not just by insufficient money sloshing around the system but also by clogged credit channels that prevented that money from flowing toward potentially productive borrowers when too many banks failed. He also outlined a "financial accelerator" effect in which disrupted financial markets increase the cost of credit, which intensifies downturns, which further increases the cost of credit. And he frequently explored the self-fulfilling nature of economic uncertainty, showing how it dissuades employers from hiring, consumers from spending and lenders from lending. The economy, after all, is a confidence game. That's why financial analysts use psychological phrases like "jittery markets" and "economic anxiety." It's no accident that the word credit comes from the Latin word for belief.

"Ben understood more clearly than anyone how a crisis of confidence can create a domino effect," says Liaquat Ahamed, author of *Lords of Finance*, a vivid history of the misguided central bankers who produced the Depression. It's one of Bernanke's favorite books, except that he wishes he had written it himself; he was working on a similar history for Princeton University Press before he was summoned to Washington in 2002.

His working title was *The Age of Delusion*.

See pictures of Chinese workers, runners-up for Person of the Year 2009.

See TIME's tribute to people who passed away in 2009.

"Once He Got It, He Really Got It"

Bernanke became a Fed governor at the height of the Age of Greenspan, shortly after Bob Woodward's biography hailing the "Maestro" but before John McCain's quip that if Greenspan died, he should be propped up at the Fed like the corpse in *Weekend at Bernie's*. Bernanke quickly emerged as a staunch defender of the Greenspan Fed and its loose monetary policies. He suggested that raising interest rates to deflate the dotcom bubble before it popped would have been like using a sledgehammer to perform brain surgery. He delivered a call to arms against deflation, proposing ways the Fed could keep juicing the economy even if rates fell to zero. When he took over the Fed in 2006, after an uneventful eight-month White House stint leading Bush's Council of Economic Advisers, he said his top priority would be continuing Greenspan's policies. "Ben and I have never had a serious disagreement," Greenspan says.

In fact, Bernanke did make subtle changes, pushing for more transparency and clarity, speaking last instead of first at rate-setting meetings to avoid imposing his views. And while Greenspan had been laissez-faire about the Fed's oversight responsibilities, Bernanke pushed through long-overdue subprime-lending reforms in 2007. Still, Bernanke was as clueless as Greenspan about the coming storm. He dismissed warnings of a housing bubble. He insisted that economic fundamentals remained strong. In March 2007, he assured Congress that "the problems in the subprime market seem likely to be contained." The day before the global crisis erupted with a run on a French bank, the Fed was still saying its primary concern was inflation. "Bernanke had no idea what was going on," a foreign central banker tells Time. "Once he got it, he really got it, and he acted swiftly and decisively. But wow! It took a while." (See pictures of Ben Bernanke's office.)

Bernanke concedes that he failed to anticipate how fragile such an overleveraged and interconnected system could be, how fear about a $1 trillion subprime mess could paralyze a $60 trillion global economy, how overnight-lending markets that got banks and corporations through the day could seize up overnight. He didn't share Greenspan's ideological faith that markets always know best, but he was surprised how spectacularly financial firms misjudged risk in their own portfolios, how collateralized debt obligations, credit-default swaps and other exotic financial weapons of mass destruction blew up in their faces. "None of us appreciated what a jury-rigged thing the financial system had become," he says. And while the Fed clearly blew its supervision of bank holding companies like Citigroup, it wasn't responsible for investment banks like Bear Stearns and Lehman Brothers, the housing enterprises Fannie Mae and Freddie Mac or the other untraditional financial contraptions whose troubles drove the crisis. The Fed was not in charge of monitoring risks to the entire system either. No one was. "Of course there were things we could have done better," he says, "but this was a perfect storm."

Once Bernanke realized a disaster was unfolding, he made a conscious effort to project calm, even when he was working seven days a week and all hours of the night, even when the Wall Street types around him were screaming and cursing like stressed-out sailors. "He decided he wouldn't be a deer in the headlights and wouldn't let the world blow up," recalls Columbia University economist Frederic Mishkin, who was on the Fed board at the time. He also made a conscious decision to avoid the mistakes made by the bankers of the 1930s — not only their stingy refusals to supply cash but also their inflexible inside-the-box thinking. He hung their picture on his office wall. He held "blue sky" brainstorming sessions to solicit unorthodox ideas. An obscure legal provision gave the Fed broad latitude in "unusual and exigent circumstances," and he did whatever it took. "In exceptional circumstances," says European Central Bank president Jean-Claude Trichet, "he has done exceptional things." (See pictures of Ben Bernanke's life from childhood to chairmanship.)

"A War of Necessity"

Today the second-guessers are running wild. Why didn't the Fed stop bailed-out companies from handing out lucrative dividends and bonuses? Why pay off AIG's creditors in full? Why save Bear Stearns but not Lehman Brothers? "It's the price of success: people start to think you're omnipotent," Bernanke says. "We say we didn't have the authority, and it's Oh, you're the Fed. You could've come up with something.'"

The Fed has become the new Trilateral Commission; no conspiracy theory is too far-fetched. There's a vivid example on YouTube, a video titled "Florida Congressman Alan Grayson Laughs in Ben Bernanke's Face — Priceless!" The rabble-rousing Democrat, wearing a shiny tie festooned with dollar bills, grills Bernanke (and mispronounces his name) about $553 billion worth of currency swaps the Fed made with foreign central banks that ran low on dollars during the credit crunch. This was textbook central banking: pumping liquidity into markets during a panic. The swaps were safe, interest-bearing loans and didn't cost taxpayers a dime. But Grayson seems to think he's uncovered a nefarious handout to shadowy foreigners. The laughter comes after he sneers that the dollar rose 20% during these swaps and asks if that's a coincidence. Bernanke pauses, then replies, "Yes."

See pictures of Ben Bernanke.

See pictures of Person of the Year 2009 runner-up Stanley McChrystal.

Ha-ha. Bernanke is right. The dollar strengthened because panicky investors were desperate for safe assets; that's why the swaps were so desperately needed. Unfortunately, YouTube doesn't provide Fed-to-English subtitles.

Bernanke has tried harder than any previous Fed chairman to explain his actions to the public, holding town-hall meetings, writing Op-Eds, even granting a few interviews. He has testified before Congress 13 times this year, and unlike the intentionally incomprehensible Greenspan, he has tried to be clear. But this is confusing stuff, and the Fed's by-any-means-necessary approach to the crisis has made it a juicy target. "We were the most aggressive central bank in the history of the world," says Fed governor and Bernanke confidant Kevin Warsh. The Fed used its magic money to shovel out more than $1.6 trillion worth of unconventional loans and is now buying over $1.7 trillion worth of unconventional assets. Here are some of the ways it has broken new ground:

The Zero Option. There was nothing unusual about lowering interest rates to boost a shaky economy, but in December 2008, Bernanke became the first Fed chairman to drop rates as low as they could go. "People always talk about central banks taking away the punch bowl, but when demand was falling so rapidly, Ben had to put the punch bowl on the table and say, Let's party!'" explains King, the governor of the Bank of England. A year later, rates remain near zero, for maximum monetary stimulus, and the Fed's rate-setting committee has signaled they will stay there for the foreseeable future. (See 25 people who mattered in 2009.)

Worldwide Outreach. Bernanke's pragmatic, plainspoken, data-driven approach has been a hit with his fellow central bankers, which has helped his efforts to forge a new global approach to global finance. "In our world, what counts are the fundamentals, and there's no show-off with him," Trichet says. Bernanke is in constant contact with Trichet, King and other key foreign players, and at one point he coordinated a six-nation rate cut to try to calm gyrating markets — another first.

The New Credit Channels. Bernanke has taken his research to heart, providing not just more money but targeted money, thawing out frozen credit markets and debuting seven blue-sky lending programs. When investors stopped buying the corporate paper that firms sell in overnight markets to meet their payroll, the Fed stepped in to buy it. When financing for securities backed by car loans, student loans, credit cards and mortgages dried up, the Fed opened new spigots to keep those markets open as well. This is one way the Fed's aid to Wall Street directly assisted Main Street, helping finance an estimated 3.3 million household loans, 100 million credit cards and 480,000 small-business loans. Bernanke took heat for substituting public for private credit, but it worked, because most of those private markets are functioning again. The emergency programs are all scheduled to wind down by June, and more than 80% of the loans have already been repaid, quietly returning billions of dollars in profits to taxpayers.

The Buying Binge. Bernanke wasn't kidding in 2002 when he claimed the Fed would still have ammunition to stimulate the economy if interest rates ever hit zero. This year he's gone on an astonishing shopping spree with conjured money, including a $1.25 trillion foray into mortgage-backed securities that represents an unprecedented intervention into a specific economic sector. The Fed has not only injected more liquidity into the economy but has directed it at the battered housing market, helping slash mortgage rates to their lowest levels since the 1940s. (The Bernankes recently refinanced their Capitol Hill townhouse after their adjustable-rate mortgage exploded, switching to a 30-year fixed rate of about 5%.) The Fed plans to stop buying next spring, but it's not clear when it will start thinning its bloated balance sheet. (Watch the video "Why TIME Chose Ben Bernanke.")

The Rescue Missions. Bernanke has received the most attention — and flak — for his work with Paulson and Geithner to save financial giants from modern-day runs. The Fed financed a private takeover of Bear Stearns, assisted public takeovers of Fannie and Freddie, helped Bank of America swallow Merrill Lynch, tried unsuccessfully to prevent the globe-rattling demise of Lehman Brothers and engineered the epically distasteful bailout of the notorious AIG. Bernanke also helped lead the charge for the $700 billion Troubled Asset Relief Program (TARP), touting it as the only alternative to megadisaster.

None of this was pretty, and reasonable people can disagree about the judgment calls. The Fed is supposed to lend only against safe collateral; the Bear and AIG deals clearly crossed the Rubicon into risk. Letting Lehman fail nearly croaked the global economy. Saving AIG — an insurance company! — the next day seemed strangely inconsistent. Maybe the Fed could have devised a way to restrict bonuses at rescued firms while giving creditors haircuts. Maybe TARP could have required bailed-out banks to lend more. Certainly, all the interventions created moral hazard, sending a perverse message that "too big to fail" financial firms will be rescued no matter how badly they screw up, encouraging Wall Street traders to start gorging on risk again.

But that's what happens in panics when leaders actually try to preserve the financial system. The central bankers of the 1930s avoided moral hazard but betrayed the world. Bank runs are even scarier now that they don't require an actual run on an actual bank. Billions of dollars can be withdrawn with a keystroke, and all sorts of nonbank players are now dangerously intertwined with financial markets. Bernanke had to act, and it's not clear how the Fed could have saved Lehman without a buyer or administered haircuts to AIG's creditors without a bankruptcy judge. In June, Bernanke was savaged on Capitol Hill for supposedly pressuring Bank of America to buy Merrill; by December, Bank of America was healthy enough to repay its $45 billion in TARP aid. In fact, all but one of the 19 financial behemoths subjected to stress tests have received decent bills of health, and taxpayers are on track to profit from TARP's wildly unpopular bank bailouts. Bernanke says major financial crises generally cost nations 5% to 20% of their national output. This panic seems likely to cost the U.S. a fraction of 1%. "How much would you pay to avoid a second Depression?" he asks. "I mean, this is a pretty good return on investment."

Now that the fire is out, it's easy to attack the firefighters for getting the furniture wet or holding their hoses improperly. "The fire metaphor doesn't even do it. The Fed is more like the Pentagon," says Geithner. "It defends the freedom and security of Americans from existential threats ... This wasn't a war of choice. It was a war of necessity." And they won.

See TIME's 2008 Person of the Year: Barack Obama.

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"There Aren't Easy Solutions"

But it's hard to tell in places like Dillon, where unemployment is now over 17%. Bernanke's childhood home went into foreclosure; his junior high is so dilapidated that Obama repeatedly cited it as a symbol of hard times after a 2008 campaign visit. A Dillon student was an honored guest at his first speech to Congress, but recently moved away after her mother lost her job as a welder.

Bernanke declared in September that the recession was ending, but he says it might feel like a recession for quite a while. Unemployment is a so-called lagging indicator, partly because beat-up businesses tend to be gun-shy about hiring after a downturn and partly because it takes modest growth just to absorb new workers and keep the jobless rate constant. The Fed is forecasting slightly stronger growth for the next few years, but it still expects 7% unemployment as late as 2012. "I shudder to think what the world would be like if Ben hadn't been running the Fed," former Secretary Paulson says. "It's just hard to explain that yes, we're in deep doo-doo, but we would have been in much deeper doo-doo." (See pictures of Ben Bernanke's life from childhood to chairmanship.)

Is there anything to be done? The Fed can't lower interest rates below zero, but liberals like New York *Times* columnist Paul Krugman — a Nobel-winning economist who was recruited to the Princeton faculty by Bernanke — are clamoring for even more action to rev the economy. At the same time, inflation hawks in the blogosphere, Congress and even the Fed's rate-setting committee are warning of new asset bubbles, soaring consumer prices and a collapse of the dollar if Bernanke doesn't reverse course and start tightening the money supply soon.

So here he is again, chatting in his grand office with the Rauschenberg on the wall and the economic ur-texts on the shelves. He chooses his words carefully. He knows they move markets. He's also awaiting confirmation by the Senate; socialist Bernie Sanders and ultraconservative Jim DeMint are both holding it up, so he doesn't want to make waves. But while he doesn't put it quite this bluntly, he implicitly makes a case for doing nothing, for waiting to see how the recovery plays out. He suggests that pumping more money into banks that are already flush with reserves could be like pushing on a string, increasing liquidity but not lending. For now, the Fed is merely instructing its supervisors to lend more. The days of whatever it takes are apparently over. "The additional steps aren't as obvious or clear as the ones we've already taken," Bernanke says. "It's an enormous problem. There aren't easy solutions."

Is he saying it's up to Congress to keep jamming on the accelerator with another fiscal stimulus? Well, no. Bernanke supported the $787 billion stimulus last winter, but when asked about a second, he repeatedly refused to bite, saying only that no matter what Congress does, it needs to produce a credible plan to reduce long-term deficits. Basically, he'd like us to make do with the money we've got — no additional borrowing or printing. What he wants Congress to do is reform the system so that big firms can be allowed to fail without risking an apocalypse. (Watch the video "Why TIME Chose Ben Bernanke.")

Bernanke seems trapped by the psychology of the markets. He sees little evidence of rising prices, and he's clearly irritated by pundits who always seem to see inflation around the next corner, a mentality that reminds him of the misguided central bankers on his wall. And yet he knows he can't be seen as weak on inflation, any more than the Pentagon can be seen as weak on terrorism, because markets could go haywire. There's never been this much cash in the financial jet stream, and the Fed's virtual takeover of the mortgage-finance market will be tricky to unwind without spooking stock and real estate markets. Bernanke seems concerned that deeper deficits could rattle bond markets, pushing up long-term interest rates and potentially triggering a double-dip recession. He's got to worry about currency traders too; the Chinese and other holders of U.S. debt could lose confidence and start a run on the dollar that could shake up the world, or a Dubai-style default hysteria could start a run to the dollar that could cripple U.S. exports.

Meanwhile, the financial system remains vulnerable to another meltdown. The House passed a financial-reform bill on Dec. 11 without a single Republican vote, but action is not imminent in the bitterly divided Senate. So there is still no big-picture regulator to monitor systemic risk, and "too big to fail" firms are still free to use borrowed money to place wild bets with confidence that the government will ride to their rescue. Now they're lobbying frantically to block stronger capital requirements, leverage restrictions and other efforts to rein in their compulsive gambling.

Amazingly, the one reform that has attracted bipartisan support on Capitol Hill has been a crusade to rein in the Fed. The House passed a measure allowing congressional audits of monetary policy, which Bernanke believes would shatter the Fed's independence and immerse its rate-setting in politics. He's also fighting proposals to identify Fed borrowers, pointing out that during the Depression, borrowers turned down Reconstruction Finance Corporation dollars to avoid the stigma of disclosure. There is broad support for stripping the Fed of its consumer-protection functions, and the leading Senate bill would eliminate its regulatory functions as well. At his recent confirmation hearing, Bernanke endured hours of nitpicking and abuse. "Obviously, I haven't succeeded in defusing the political concerns about the Fed," Bernanke says with a wan smile.

Let's cut the guy some slack.

It's no consolation to the 1 in 6 Americans who is underemployed, the 1 in 7 homeowners with a delinquent mortgage or the 1 in 8 families on food stamps, but there would be far more joblessness, foreclosures and hunger were it not for Ben Bernanke. He didn't study economics to get rich — he and his wife still share a Ford Focus that's not quite paid off — and he didn't go to Washington to get a security detail. Instead, he truly believes the Keynesian notion that economists ought to be as useful as dentists. In a time of rabid partisanship, it's a tribute to Bernanke's basic desire to try to do the right thing that Obama aides don't seem worried about handing a Republican the keys to the economy for the next four years.

As the terrifying memories of free-falling markets fade, Bernanke has become a political victim of his apolitical success. His boldness in the crisis feels like yesterday's news. But if he's adopting a less aggressive approach to guiding a weak economy around skittish markets, it's not because he's timid, stupid or indifferent to Main Street. He's earned the benefit of the doubt. It's now up to our dysfunctional political system to let him do his job — and to fix the financial system so that he never has to save the world again.

See pictures of Ben Bernanke's office.

See 25 people who mattered in 2009.

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