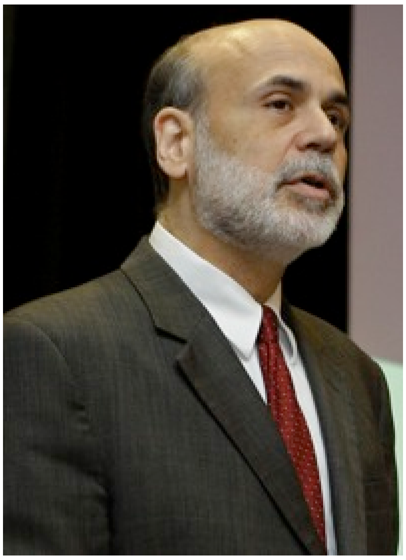
Bernanke is "Times'" Man of the Year



With the expiration of one of the most turbulent years, economically speaking, in American history, it is not surprising that Time magazine has recognized Federal Reserve Chairman Ben Bernanke as Man of the Year. In an era of unbridled optimism gone bust, the ubiquitous media presence of the unassuming Princeton economist who has become — in Time's panegyrical prose — "our mild-mannered economic overlord" and "the most powerful nerd on the planet" would make Bernanke a shoo-in for such recognition.

It was not the vision of *Time* founder Henry Luce that "Person of the Year" be an award or honor. Instead, Luce wanted to recognize the individual who "most influenced the news, for good or for ill" and who was a "prime mover in the year's events," according to *Time's* managing editor Rick Stengel. Thus the choice of Ben Shalom Bernanke is recognition of the central role that the former whiz kid from rural Dillon, South Carolina, has played in world events, for better or for worse.

The adulatory tone of *Time's* latest Bernanke piece, however, suggests that the low-key, high-IQ manager of America's money supply has, in his own way, acquired — at least within the Beltway — the same kind of cult of personality for which his predecessor, Alan Greenspan, has been criticized. Bernanke, *Time* tells us, has none of the bloated ego or self-conscious charisma so typical of Capitol Hill. He is instead a sort of economic philosopher-king, a reluctant genius plucked from the empyrean innocence of the Princeton academy to play a defining role on the world's biggest stage.

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In fairness to Bernanke, the Fed Chairman was, before his elevation to financial mandarin, an academic's academic. A child prodigy, he excelled at Harvard and completed his Ph.D. in economics at MIT. Princeton University, recognizing his enormous abilities, conferred tenure on him at the precocious age of 31. He headed the economics department there for six years, his mild-mannered persona a distinct advantage in dealing with the clash of titanic egos and intemperate agendas so typical of upper-echelon American academia.

Bernanke's passion was and remains the Great Depression of the 1930s. He has written voluminously on that tempestuous era, and has admitted publicly that the Federal Reserve was primarily to blame for the debacle. Well-schooled in the errors of the past, Bernanke was perfectly prepared to use all of the Federal Reserve's considerable arsenal of extraordinary powers to help America (and the rest of the world) weather the perfect economic and financial storm that blew up in 2008. As a result, what could have become (in the overused media cliché) "Depression 2.0" is already beginning to abate, although some of the storm's aftereffects, like high unemployment, may linger for years to come. In a time of unexampled economic turmoil and the likelihood of a total meltdown, Ben Bernanke may have literally saved civilization as we know it.

Those, at least, are the cadences of the *Time* piece. While Bernanke failed to foresee the coming storm (as *Time* frankly admits), the expert consensus is that, without his powers of judgment and his decisive actions, things would have become much, much worse. “[Bernanke] decided he wouldn’t be a deer in the headlights and wouldn’t let the world blow up,” Columbia University economist Frederic Mishkin told *Time*. Said former Treasury Secretary Henry Paulson, “I shudder to think what the world would be like if Ben hadn’t been running the Fed.” Bernanke himself maintains that “we came very, very close to a depression…. The markets were in anaphylactic shock. I’m not happy with where we are, but it’s a lot better than where we could be.”

Much of the praise lavished on Bernanke and his unprecedented actions responding to the crisis — lowering interest rates to zero, opening up the money spigots wider than ever before, and extending credit to a wide range of financials not previously eligible for Fed funds — assumes that Bernanke has succeeded where Fed policymakers of the 1930s failed. Whereas the Fed back then tightened credit and refused to inflate the money supply, making a bad situation worse, Bernanke has pulled out all the stops, pouring new money into a fragile system paralyzed by a crisis in confidence and hamstrung by a drying-up of credit. Such, at least, is the mythology of the Fed and the Great Depression, as retailed by the likes of economists Milton Friedman and Anna Schwartz.

While we must agree in assigning primary blame for the Great Depression to the Federal Reserve (and its primary accomplice, the Bank of England), the story as understood by the likes of Friedman and Bernanke is incomplete. What triggered the monumental market crash in 1929, which was followed by a three-year recession that derailed the world economy like no event before or since? The answer, as any high-school student can probably recite, was the irrational run-up in asset valuations during the boom years of the “Roaring Twenties.” But (and this is the question that the Bernankes of the world are apparently loathe to address), what caused the boom in the first place? The answer, once again, is the Federal Reserve. It was the easy-money policies of the 20s — motivated in no small measure by the desire of Benjamin Strong, head of the New York Fed and de facto boss of the entire Fed system during that era, to prop up the ailing, over-inflated British pound — that encouraged the boom. Easy credit meant easy money, and easy money allowed asset prices to be bid up far beyond rational valuations.

In like manner, the easy-money policies at the Fed during the ’80s and ’90s stimulated the fantastic run-up in stock, real estate, commodities, and other assets. When the dot-com bubble burst — the first in a cascade of catastrophes that finally swept away the House that Greenspan built in fall of 2008 — the Fed responded by lowering interest rates and pumping more money into the economy.

Such actions only postponed the inevitable — and worsened the outcome, as most of us outside the Beltway are now aware. While Ben Bernanke certainly cannot be held responsible for the consequences of his predecessor’s decisions, he is now coaching from the same failed playbook — albeit on a larger scale — that Fed chairmen from Marriner Eccles to Alan Greenspan have used.

As for the claims that the recession is winding down, and that Bernanke’s actions saved us from greater calamity, consider that the recession that kicked off the Great Depression ended in 1932. Another, briefer recession occurred later in the decade, but the anemia of depression took a much heavier, longer toll.

This is because depressions are not merely bigger, badder recessions, as the public likes to assume. A recession — a quantifiable economic contraction that may or may not have broad social consequences — is a different creature from a full-blown depression, a sociopolitical event as much as a financial one. Recessions trigger corrections in capital allocation. Depressions can produce wholesale revolutions in morals and in government, as the French Revolution and the New Deal — both products of full-blown economic collapse — eloquently attest.

Most major economic crises engender fiscal crises — national bankrupticies, debt repudiation, and the collapse of currencies, for example. We have already witnessed the dramatic collapse of the economies of Iceland and Dubai. The latter was just bailed out by neighboring Abu Dhabi, to the tune of $10 billion. But what happens when the United States government goes insolvent? No coalition of economic powers could possibly contrive to bail the United States out of its multitrillion dollar debt or rescue a failing dollar backed by nothing but the confidence of governments from London to Beijing. These, and perhaps other Damoclean crises yet to fall on the American and world economy, will have to be played out before any final verdict on Ben Bernanke will be possible. Given the fact that (as *Time* admits) the so-called end to the recession is based primarily on numbers generated by artificial government simuli like the cash for clunkers boondoggle and the apocalyptic levels of new debt that both the Federal government and the Federal Reserve have assumed in the face of this crisis, a salutary long-term outcome does not seem very likely.

As for Bernanke's alleged monetary legerdemain and cavalier lack of concern for the peril of hyperinflation, the rapidly depreciating dollar and soaring consumer prices speak for themselves.

The most that can be said of the Federal Reserve and of the best and brightest of its chairmen (among whom Bernanke certainly deserves to be numbered) is that it has presided, in times of relative stability, over the orderly debasement of the U.S. dollar and the gradual destruction of the U.S. economy. Since the formal end of the gold standard in the 1970s, Americans have seen a remarkable decline in living standards, as betokened by declining real wages and salaries and the explosion of both public and private debt. All of this can be laid squarely at the feet of the Federal Reserve and its power to create money and credit out of thin air.

For decades, the effects of Fed policies were so gradual that few troubled themselves to understand them. Since the rise of Bernanke, the Fed has come under unprecedented public scrutiny and its misbegotten policies are now clearly grasped by many. The well-publicized debates between Bernanke and his congressional nemesis, Ron Paul, have helped to bring America's shadowy central bank out of the shadows and into the glare of public scrutiny. For the unwitting role he has played in this transformation of the Fed's public image, Ben Bernanke deserves our recognition, if not our kudos.?

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