Exposing the Fed: The Ben "Bernank" YouTube Video and the Emperor's New Clothes

William C. Dudley, president of the Federal Reserve Bank of New York, defended the Fed's recent announcement to print more money (called Quantitative Easing) to stimulate the moribund economy. Dudley, who is also the vice chairman of the Fed's FOMC (Federal Open Market Committee), and former chief United States economist for Goldman Sachs, said that the decision to increase the supply of money was only to reduce interest rates further and not to devalue the dollar. He said, "We have no goal of pushing the dollar up or down. Our goal is to ease financial conditions and to stimulate a stronger economic expansion and more rapid employment growth."

Defense of the Fed showed up elsewhere including at the *Washington Post* in an article by Greg Ip, the U.S. economics editor at the *Economist* magazine. He said that much of the recent criticism of the Fed's action nationally and internationally is "shrouded in confusion and misperceptions." In order to correct them, Ip reviewed five "myths" about the Fed.

The first myth: "By printing money, the Fed will create runaway inflation." Ip was remarkably candid in his explanation, quoting free market Milton Friedman that "inflation is always and everywhere a monetary phenomenon," and that when the Fed purchases bonds, the money it uses "the Fed conjures … up out of thin air." But such a move is necessary because lower interest rates will cause some people to borrow who otherwise wouldn't, stocks will rise, citizens will feel wealthier and subsequently feel like spending more. Besides, Ip says, the link between printing and higher prices isn't always direct or immediate. *The Daily Bell* confirmed that "Every dollar that Bernanke prints evidently and obviously adds to inflation and will, sooner or later … manifest [itself] in price inflation."

Ip's myth number two: "The Fed is endangering the Global recovery by trying to drive down [the value of] the dollar." Recent moves by the dollar have shown that to be exactly and precisely the result, according to Ip, as the dollar has "dropp[ed] 7 percent against the Euro, 3 percent against the yen and 7 percent against the Korean won." This would give the United States a competitive advantage over other producers overseas. And Ip agrees! He said, "While a weaker dollar isn't the direct goal of the Fed's actions, it's a predictable and *welcome consequence* [emphasis added] … as a falling dollar boosts American exports, it hurts the exports of our trading partners. But that's as it should be. After years of living beyond its means, the United States must now save more and consume less." As the *Bell* pointed out, under the care of the Fed for the last one hundred years the value of the dollar has declined by nearly 99 percent. And this is one of the Fed's primary purposes:

> The Western power elite…is very interested in reducing the competitive advantage of the West via

> the rest of the world in order to more easily introduce world government. To maintain that what is going on is merely the result of innocent policy movements over the past century is…purposefully misleading.

Myth number three, according to Ip, is “The Fed is trying to finance the government’s profligacy.” And, remarkably once again, Ip agrees: “By buying Treasury debt, the Fed is in effect financing the federal deficit.” But that’s actually a good thing, he says, and “it might actually help if the government borrowed [even] more.”

The fourth myth is “The Fed is immune from politics.” Ip explains that the Fed is “technically independent” from the rest of the government. Writers at the *Bell* wish “If it were only so!” and reminded its readers that “central banks are operated not for your benefit, dear reader, but for that of the elites that installed them…. In fact, we wish … that Congress would simply do away with it. There is no philosophical, moral or economic justification for central banking.”

The final myth was that “Bernanke knows what he’s doing.” Ip claims that

> Bernanke came to his job with an impressive resume, including years of studying the Great Depression. To that he can now add the irreplaceable experience of running the central bank through one of its more harrowing periods. If anyone should know what he’s doing, it’s he.”

This myth nearly evoked laughter from the writers at the *Bell*: “The Fed’s predictive history is so horrible at this point, its bankers so manifestly incompetent, its results so dismal, that there are not many ways to defend it…”

Such dismal history has generated other responses to the Fed’s recent announcement, including this YouTube video, “Quantitative Easing Explained,” which has nearly a million views at this writing (a word of caution: the "s" word is used twice).

As Gary North explained,

> The video gets to the point. Bernanke is an inflationist…Goldman Sachs gets rich from its relationship with the Fed. When a video makes this connection, the Fed is in trouble, because Goldman Sachs has [such] bad press. It is not merely guilt by association. It is more like “unindicted co-conspirator.”

Kenneth Foot, professor at the Harvard Business School, confirms that the Fed is in trouble and that its credibility is being shredded: “This is a very rare circumstance where the basic authority we vest in institutions like the Fed has, more than ever, been challenged.”

One is reminded of Hans Christian Andersen’s *The Emperor’s New Clothes*, where two swindlers, calling themselves weavers, called on the Emperor to sell him a new set of clothes. They explained that they had a “special power” to make the clothes invisible to “everyone who was stupid or not fit for his post.”

In exchange for gold and silver, the weavers pretended to weave, and the ministers sent to check on their progress pretended to see. The Emperor himself was eager to view the garments, but said to himself, “Suppose I am unable to see the cloth? That would mean I am either stupid or unfit for my post. That cannot be.” One of the ministers

> Stared and stared. Still he could see nothing, for there was nothing. But he did not dare to say he saw nothing. “Nobody must find out,” thought he. “I must never confess that I could not see the

> stuff." Instead, "I shall tell the Emperor how enchanted I am with the cloth."

On the day of the procession when the Emperor was to appear for the first time in his new clothes, the people exclaimed:

> "Magnificent!" "Excellent!" "Exquisite!" went from mouth to mouth and everyone was pleased. Each of the swindlers was given a decoration to wear in his button-hole and the title of "Knight of the Loom."

But among the crowds a little child suddenly gasped out: "But he hasn't got anything on." And the people began to whisper to one another what the child had said. "He hasn't got anything on." "There's a little child saying he hasn't got anything on." Till everyone was saying, "But he hasn't got anything on."

The Emperor himself had the uncomfortable feeling that what they were whispering was only too true. "But I will have to go through with the procession," he said to himself.

In concluding its exposure of the various invisible defenses erected by the Emperor's ministers and apologists for the Fed's actions, the *Bell* wrote: "If there is any one blessing to come out of the current mess, [it] is that people are gradually losing faith in [the Fed and] government itself and its magic regulatory elixir."

Photo: William C. Dudley, President and CEO of the Federal Reserve Bank of New York, speaks at the Columbia University World Leaders Forum, Dec. 7, 2009 in New York.: AP Images