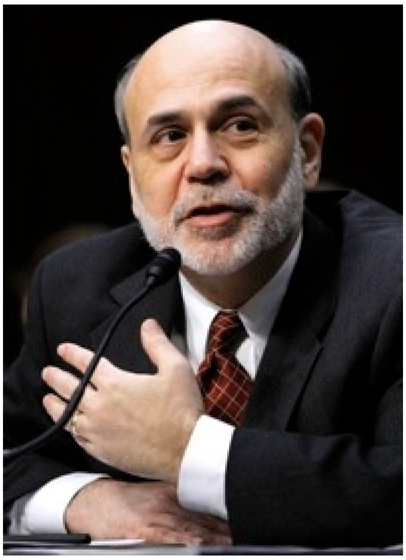
Ben Bernanke Opposes Spending Cuts



Bernanke told the committee that $60 billion in federal budget cuts proposed by Republicans would cut gross domestic product growth one-to-two tenths of a percent. "That would translate into a couple hundred thousand jobs. So it's not trivial," Bernanke claimed. Of course, the proposed cuts would amount to only four percent (1/25) of the total federal deficit this year.

Bernanke also tried to imply that he was for being fiscally responsible, claiming that he wanted government to balance the budget some day — just not any time in the near future. "What I have been trying to focus on is, we have got to keep our eye on deficit reduction, but we need to think about it in a long-term framework," he told committee members.

One of the more interesting points of the hearing was Bernanke's response to a question by Representative Ron Paul (R-Texas) on what a dollar is worth: "How can you run your operation without a definition of the dollar, and what is your definition of the dollar?" Rep. Paul is a staunch advocate of a gold standard and a dogged critic of the Federal Reserve, authoring a book entitled *End The Fed*.

Bernanke replied to the question: "My definition of the dollar is what it can buy. Consumers don't want to buy gold; they want to buy food, and gasoline, and clothes and all the other things that are in the consumer basket. It is the buying power of the dollar in terms of those goods and services that is what is important, and that's what I call price stability."

"This really isn't exactly right," even Daniel Indiviglio of the very liberal TheAtlantic.com acknowledged. "Paul's question really deserves a more thoughtful response. The dollar isn't simply pegged to a basket of goods like it would be to gold under a gold standard. Instead, some low rate of inflation is targeted by the central bank, which is managed by considering the prices of goods in that basket. The difference here is subtle but important. Under inflationary monetary policy, the dollar becomes worth less and less. So its value relative to that basket of goods is constantly changing. Its definition is a moving target."

Rep. Paul pointed out to Bernanke that inflation of the money supply can mask the real economic impact of a recession, noting that when measured in gold, the stock market has a long way to go to recover it's peak value 10 years ago. "If you bought the stock market in 2000, the [Dow Jones] index, it would have taken 44 ounces of gold. In 1980 it would have taken 1.5 ounces of gold. Today, it's back down to eight ounces. So in true value, the stock market is in a crash. You can say, oh, no gold is not money, and you and I will have a disagreement on whether gold is money or not. But the Fed holds gold, the Treasury holds gold, central banks hold gold.... It's history, it's the marketplace; gold is the true long-term measurement of value."

Photo of Ben Bernanke: AP Images