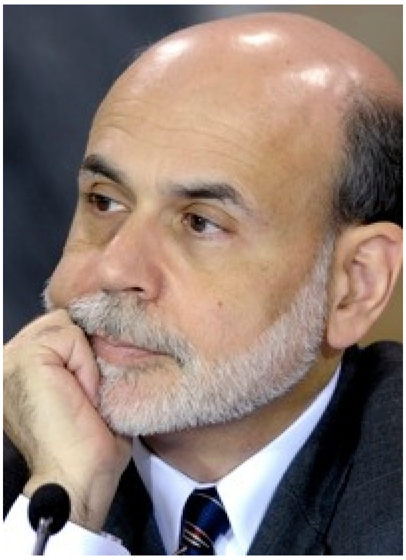
Written by **Thomas R. Eddlem** on December 7, 2010

Bernanke Hints at More “Quantitative Easing”



Stocks retreated and commodities predictably soared Monday after Federal Reserve Bank Chairman Ben Bernanke told CBS’s 60 Minutes that “it’s certainly possible” the Fed could create additional “quantitative easing” beyond the $600 billion already announced. “Quantitative easing” is the modern term coined by Federal Reserve officials that means creating hundreds of billions of dollars in currency out of thin air, thereby inflating the currency, but hopefully not raising consumer prices beyond a target two percent per year.

60 Minutes’ Scott Pelley asked Bernanke, “Do you anticipate a scenario in which you would commit to more than $600 billion?” Bernanke responded: “Oh, it’s certainly possible. And again, it depends on the efficacy of the program. It depends on inflation. And finally it depends on how the economy looks.” Bernanke indicated that additional quantitative easing is possible because:

> The unemployment rate is just not going down. Unemployment is just about the same as it was in mid-2009, when the economy started growing. So, that’s a major concern. And it looks that at current rates, that it may take some years before the unemployment rate is back down to more normal levels.... At the rate we’re going, it could be four, five years before we are back to a more normal unemployment rate. Somewhere in the vicinity of say five or six percent.

Pelley noted that the Federal Reserve Bank had not put the U.S. economy on a sustainable course:

> Pelley: You seem to be saying that the recovery that we’re experiencing now is not self-sustaining.
>
> Bernanke: It may not be. It’s very close to the border. It takes about two and a half percent growth just to keep unemployment stable. And that’s about what we’re getting. We’re not very far from the level where the economy is not self-sustaining.

Critics of the Federal Reserve such as incoming House Monetary Policy Subcommittee Chairman Ron Paul and Financial expert Peter Schiff claim that nothing about creating money out of thin air increases the productivity of Americans or helps the recovery. Paul says that Federal Reserve’s policies are inflationary and hurting the economic recovery, citing the spike in the price of gold (which hit a record $1,429 an ounce in trading Monday) and the fall of the dollar on global currency markets as proof: “Markets have run out of patience with our profligacy,” Paul wrote last month, “and therefore our own central bank literally must serve as the buyer of last resort for Treasury debt.”

Bernanke admitted of the housing bubble that “Well, I wish I’d been omniscient and seen the crisis coming, the way you asked me about, I didn’t. But it was a very, very difficult situation. ”

But Austrian School economists such as Peter Schiff have become Internet phenoms for accurately predicting the cause and result of the housing bubble on national television beginning in 2005. And Congressman Ron Paul accurately predicted the housing bubble as early as 2002. Speaking on the floor of the U.S. House of Representatives back on July 16, 2002, he described precisely what did happen and what is today happening:

> Like all artificially-created bubbles, the boom in housing prices cannot last forever. When housing prices fall, homeowners will experience difficulty as their equity is wiped out. Furthermore, the holders of the mortgage debt will also have a loss.… Perhaps the Federal Reserve can stave off the day of reckoning by purchasing GSE [Government Sponsored Enterprises] debt and pumping liquidity into the housing market, but this cannot hold off the inevitable drop in the housing market forever. In fact, postponing the necessary but painful market corrections will only deepen the inevitable fall.

Rep. Paul sees the Federal Reserve's actions as bringing about a downfall of the dollar, something that has already happened in many commodities in the past two years, along with consumer price inflation.

But Bernanke told *60 Minutes* that "this fear of inflation, I think is way overstated. We've looked at it very, very carefully. We've analyzed it every which way. One myth that's out there is that what we're doing is printing money. We're not printing money. The amount of currency in circulation is not changing. The money supply is not changing in any significant way. What we're doing is lowing interest rates by buying Treasury securities. And by lowering interest rates, we hope to stimulate the economy to grow faster."

Bernanke's statement about not increasing the amount of money in circulation is flatly contradicted by his own Federal Reserve Bank statistics, which show the volume of money has increased by a third in the last two years over the 2005-08 average. While the Federal Reserve Bank doesn't print actual paper dollar bills (that job belongs to the U.S. Treasury), it has without question been creating money using computers through the expansion of its balance sheet.

Bernanke will likely face tough congressional questions when Paul takes up the gavel in January, but he told *60 Minutes* that "the Fed's independence is critical. The central bank needs to be able to make policy without short term political concerns. In order to do what's best for the economy. We do all of our analysis, we do all of our policy decisions based on what we think the economy needs. Not based on when the election is or what political conditions are."

The question remains, however: If the Federal Reserve created the "Great Depression," as Bernanke has admitted in his book, and it had no idea that the current recession was coming, as he also admitted to *60 Minutes*, why must the Federal Reserve's independence remain so sacrosanct?

Photo of Ben Bernanke: AP Images