



Bernanke's Kudos, Criticisms Miss the Point

A preliminary vote today for Ben Bernanke's reappointment to a second four-year term as chairman of the Federal Reserve is expected to clear the way for a final favorable vote by the Senate.

Bernanke's first term record was subjected to criticism and praise during confirmation hearings in December, and he was selected as *Time* magazine's [Person of the Year](#). *Time* magazine's Michael Grunwald was kind to a fault, calling Bernanke "our mild-mannered economic overlord" (a reference, no doubt to Superman's mild-mannered Clark Kent), and "the most powerful nerd on the planet." In that lengthy tribute, Grunwald summarized the Fed's role:



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.

He emphasized Bernanke's role in keeping the recession from becoming a depression:

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.

Grunwald ended his review by saying that "[Bernanke has] 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."

Others have been less charitable.

[The New American's Charles Scaliger](#) tried to be generous:

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



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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.

John Lott of Fox News was [more direct](#): “Despite Mr. Bernanke’s obvious academic expertise on the Great Depression, he shouldn’t be confirmed. The Federal Reserve’s extreme powers have rarely been as overused and misused as they have been by Mr. Bernanke.” Lott then reminded his readers of how Bernanke tricked the Bank of America into merging with Merrill Lynch “by claiming that Merrill was in better financial shape than it really was.” When BofA CEO Ken Lewis learned the truth, he tried to stop the merger. But Bernanke threatened to replace Lewis and the entire board of directors unless they went along with his plan. As Lott pointed out, “There [was] no justification, moral or economic, for why Bank of America shareholders should have borne the burden of rescuing Merrill Lynch.”

Senator Jim Bunning (R-Ky.) voted against confirmation when the Senate Banking Committee convened in December. He demanded that Bernanke reveal the specifics of the Fed’s bailout of AIG, saying, “I hope and ask that [the committee] will ... be given this information before moving forward. We must know what the Fed is hiding from us and from the American people.” Senator Kay Bailey Hutchison (R-Texas) charged that the Fed misled Congress about how TARP funds were used. Senator Jeff Merkley (D-Ore.) also opposed Bernanke’s confirmation: “Dr. Bernanke failed to recognize and remedy the factors that paved the road to this dark and difficult recession. Following the collapse of our economy, it is apparent that Dr. Bernanke has not changed his overall approach of prioritizing Wall Street over American families.” Despite these objections, the Committee voted to confirm Bernanke by a vote of 16-7.

Additional confirmation of Bernanke’s bullying and disingenuousness was revealed by Neal Barofsky who completed an [independent audit](#) of how TARP funds were used. On October 14, 2008, the Federal Reserve, the FDIC, and the Treasury simultaneously announced that the original nine TARP recipients were “healthy institutions” when in fact “at least some of these institutions were not in fact healthy.” The auditors were told that “the firms’ health was less important than *their interconnectedness and their overall importance to Wall Street*. [Emphasis added.] Auditors further revealed that executives at several of these nine institutions were reluctant to accept TARP funds but that “federal officials forced them to take the money.” Given the opportunity to dispute the audit, “The Federal Reserve generally agreed with the report’s findings.”

Bloomberg [reported](#) that the Fed is considering adopting a new benchmark to replace the one it has been using to monitor the economy for the past 20 years. Gary North [analyzed](#) this proposal in detail and declared that this is evidence that the Fed has lost control of the economy, that “bankers are scared out of their wits,” and “things are getting sticky for the Fed.” He [concludes](#):

The economists at the FED don’t know what they are doing. This should come as no surprise. Any economist who thinks a committee of salaried non-owners with a printing press is better equipped than the free market to set interest rates for the largest economy on earth does not understand economics.

Dr. North makes the precise point that it really doesn’t matter who is running the Fed. The problem is the Fed itself. One is reminded of the story of the little old lady who operates a guillotine. She is a very nice little old lady with the purist and most noble of intentions, and really doesn’t want to harm anyone. But the fact is that the guillotine cuts off heads! All the attention that Bernanke is getting, good or bad, completely misses the point: The Fed destroys the currency, which ultimately destroys the economy.



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Lew Rockwell, in conjunction with the [Ludwig von Mises Institute](#), created a video presentation on money, banking, and the Federal Reserve, which serves admirably to clarify what the Fed is, what it does, and what the final outcome will be. It points out that "the Federal Reserve System virtually controls the nation's monetary system, yet it is accountable to no one. It has no budget; it is subject to no audit; and no Congressional Committee knows of, or can truly supervise, its operations."

When John Lott of Fox News wrote that "there is no justification, moral or economic, for why Bank of America shareholders should have borne the burden of rescuing Merrill Lynch," he was almost right. There was no constitutional justification either for this decision by the Fed, because the Fed operates outside of the Constitution. Thomas Jefferson said, "In questions of power, then, let no more be heard of confidence in man, but *bind him down from mischief* by the chains of the Constitution." Lord Acton expressed the same sentiment: "Power tends to corrupt; absolute power corrupts absolutely."

If the Constitution doesn't apply, is ignored, abrogated, or overridden, then anyone can become chairman. It really won't matter. The end result will be the same.

Photo of Ben Bernanke: AP Images



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