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In Praise of Ben Bernanke

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The debate over Federal Reserve chairman Ben Bernanke keeps getting weirder. Bernanke is a Republican and was appointed by George W. Bush. He's an expert on the Great Depression and has been trying to avert a new one.

But to listen to many conservatives, he's a villain, nothing less than a tool of the Obama White House. The CATO institute held a session [3] on Thursday denouncing Bernanke's policy of QE2--so-called quantitative easing--which amounts to pumping another \$600 billion into the economy. Sarah Palin has been decrying Bernanke as well. Neoconservatives are jumping on board as well--William Kristol has created a new organization called e21 that is denouncing Bernanke for allegedly running the risk of massive inflation and the destruction of the greenback, a phenomenon that I discuss in today's Los Angeles Times [4], if you'll pardon the plug for myself.

The real danger, though, isn't inflation. It's deflation. Unemployment remains stuck at 9.6 percent. Inflation is negligible. It's hard to see how Bernanke's move is suddenly going to usher in a new era of Weimar-like hyperinflation. American's won't be stuffing there SUVs with worthless banknotes to purchase a loaf of bread at the local Safeway anytime soon.

No, the real looming problem remains the federal budget deficit, something that neither Democrats nor Republicans really have much appetite for tackling. The Tea Party talks tough, but will it have the cojones to push for the cuts in entitlement programs and the Defense Department that are necessary to avert crushing deficits in the next decade? Will Democrats and Republicans cut a deal on tax policy? Those, not Bernanke's actions, are the nub of the matter.

In the absence of any real fiscal policy, however, Bernanke has temporarily usurped the position of both Obama and Congress. His latest statements have focused on the fact that both China and Germany are relying on exports to America to bolster their economies. President Obama has made it abundantly clear that that era is coming to an end. But it's a message that our German and Chinese friends don't want to hear.

Conservatives can aim their fire at the Federal Reserve, but they're focusing on the wrong target.

(Illustration by Robert Mihalý)

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