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Bernanke isn't 'most inflationary' Fed chief

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The Republican candidates for president aimed most of their rhetorical ammunition during Wednesday's debate at President Barack Obama, but there were a few shots at Federal Reserve chairman Ben Bernanke.

One verbal attack by former U.S. House Speaker Newt Gingrich at Bernanke caught our attention.

"I think he's been the most inflationary, dangerous and power-centered chairman of the Fed in the history of the Fed," said Gingrich, a former U.S. House member from suburban Atlanta.

The Federal Reserve is the central bank of the United States and tries to make sure the nation's monetary and credit conditions are stable. Republicans running for president have all been critical of the economic policies of Obama, a Democrat, focusing on issues like the nation's high unemployment rate and his desire to end tax cuts for the wealthiest earners. Some of that criticism has befallen Bernanke, who was first nominated to the position by President George W. Bush, a Republican, during the latter part of his administration.

The parts about Bernanke being "dangerous" and "power-centered" seemed grist for debate among political wonks. "Inflationary" sounded like something easier to check with data, a claim worthy of the Truth-O-Meter.

Here's what we found.

Gingrich spokesman R.C. Hammond explained the basis of his comments.

"Newt's comments were based on reports of unaccounted spending reaching into the billions the Fed has doled out over the past few years," Hammond told us in an e-mail.

In that speech, Gingrich criticized Bernanke's support for the 2008 bank bailout and says some Fed policies weaken the U.S. dollar by promoting inflation.

"For example, the Fed might increase the money supply substantially in the belief that such monetary expansion will spark economic growth," Gingrich said. "But a Fed that floods the economy with new dollars in an attempt to stimulate economic growth and new jobs is a Fed that decreases the value of every dollar in every American's pocket through higher inflation, making every American poorer."

We looked at the U.S. Bureau of Labor Statistics' Consumer Price Index, which measures the prices nearly 90 percent of Americans pay for goods and services and is used by most economists to determine inflation rates. The bureau keeps annual data on the change to the index.

The highest average annual index was nearly 11 percent, which occurred under Chairman William P.G. Harding from 1917 to 1921. The second-highest rate was from 1971 to 1977, when Arthur Burns was chairman. The annual average index between 2007, the first full year of Bernanke's term, to 2010 was just below 2 percent. Bernanke was in the middle of the pack in comparison to the other Fed chairmen.

Barry Bosworth, an economics expert at the liberal/centrist-leaning Brookings Institution, said he would use a similar method to measure Bernanke. The percentage he found under Bernanke was nearly the same.

"It is unusually low," said Bosworth.

We also tried another method to see if Gingrich had a point. We used the bureau's index inflation calculator. We looked at how much $100 was worth in the first year of each chairman's term and the last year. Harding, again, had the highest average percentage change. Bernanke, again, was in the middle of the pack.

Dan Mitchell, who was an economist for former U.S. Sen. Bob Packwood, R-Ore., believes the index is not the best way to measure inflation.

"[I]nflation can then show up in various ways --- a rising CPI, an asset bubble, excess reserves redeposited at the Fed, etc. I'm not saying Gingrich is necessarily right. But I am saying that CPI is not the right variable, [though that's how the average thinks of it]," Mitchell said.

Mitchell, a senior fellow at the Libertarian-leaning **Cato Institute,** contends that "inflation is the creation of excess liquidity by the central bank." The definition is similar to Gingrich's argument that Bernanke flooded the economy with too many dollars.

J.D. Foster, an economist whose biography says he worked in the White House Office of Management and Budget, told us that inflation is accelerating, but still low. He said some of Bernanke's policies could result in much higher rates.

"There is a long and variable delay between monetary policy actions and inflationary effects. So looking at today's inflation really doesn't tell you much about future inflation. Therein can one defend with no trouble Gingrich's comments about inflation," said Foster, who worked at the conservative-leaning Heritage Foundation.

Donald Ratajczak, a leading economist and former director of Georgia State University's Economic Forecasting Center, said "[Bernanke] has been one of the least" inflationary Fed chairmen.

Ratajczak said the only rationale he could consider is that Gingrich was referring to the expansion of assets of the Federal Reserve.

"But that's not the same thing," said Ratajczak, who still writes a weekly commentary on the economy for Morgan Keegan, an investment firm.

Our ruling:

Gingrich is making the point that Bernanke has created a huge pool of liquidity that is raising inflationary pressures to levels never seen under previous Fed chairmen.

However, the current CPI rates are still low, and Gingrich's concerns haven't been seen in Consumer Price Index averages, which are widely used to monitor inflation. The index has been higher under other Fed chairmen, and Bernanke is in the middle under such a comparison.

We rate Gingrich's statement Mostly False.

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