



Bernanke the Great Inflator Says

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Welcome to Zimbabwe

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Economics

If you follow economic affairs at all, you know who Ben Bernanke is. He's the chairman of the Federal Reserve. He was Time's 2009 "Man of the Year." CBS News said he may be the most important Fed chairman in history when Scott Pelley interviewed him for the highly watched 60 Minutes program.

Bernanke's an expert on The Great Depression, and famously said, back in 2002,

But the U.S. government has a technology, called a printing press (or, today, its electronic equivalent), that allows it to produce as many U.S. dollars as it wishes at essentially no cost. By increasing the number of U.S. dollars in circulation, or even by credibly threatening to do so, the U.S. government can also reduce the value of a dollar in terms of goods and services, which is equivalent to raising the prices in dollars of those goods and services. We conclude that, under a paper-money system, a determined government can always generate higher spending and hence positive inflation.

But while Helicopter Ben is considered the great inflator, he's no match for Gideon Gono, governor of the Reserve Bank of Zimbabwe. So while Bernanke may have been named

Man of the Year in 2009, Gono was awarded an Ig Nobel Prize in 2009 for "giving people a simple, everyday way to cope with a wide range of numbers by having his bank print notes with denominations ranging from one cent to one hundred trillion dollars." The aim of the Ig Nobels is to honour achievements that "first make people laugh and then make them think."

But don't think Gono is lacking for self-esteem. When interviewed by Newsweek in January 2009 and asked if he viewed his term as Reserve governor a success, Gono responded, "I am modestly credited with the survival strategy of my country."

On the other hand, Mr. Bernanke can count on his friends to sing his praises: "I shudder to think what the world would be like if Ben hadn't been running the Fed," former secretary Hank Paulson says. "It's just hard to explain that yes, we're in deep doo-doo, but we would have been in much deeper doo-doo."

Mr. Gono is a relatively young man of 50 years old. He started his career at the National Breweries, before joining the Zimbabwe Fertilizer Corporation, and then going into banking first with ZimBank, which is owned by the government, and then moving onto the Commercial Bank of Zimbabwe; he was Zimbabwe president Robert Mugabe's personal banker. He was appointed to head the University of Zimbabwe Council and was granted an honorary degree. Gono has a doctorate in strategic management from Atlantic International University, after beginning his secondary education at Rapid Results College. Gono was given an honorary doctor of laws degree from the University of Zimbabwe. Meanwhile Mr. Bernanke has his doctorate degree from MIT after studying at Harvard.

Both central bankers embrace their humble beginnings. Gono told Newsweek, "I owe a lot of my character and who I am today from a humble background. I was poor. I got a start making tea and keeping house. I'm a normal guy; I miss going to the supermarket."

Bernanke grew up in the small town of Dillon, South Carolina, and emphasizes "his Main Street middle-class roots," and his wife "still makes him do the dishes and take out the trash," according to Time.

And while Bernanke wears off-the-rack suits and owns just a pretty nice 4-bedroom townhome in Washington, DC, which cost him \$839,000, his counterpart Gono lives in the richest suburb of Harare — Borrowdale Brook — in a 47-bedroom palace down the street from President Mugabe's place. The Gono residence, in addition to having as many bedrooms as a small hotel, has a glass swimming pool, a minitheater, landscaped gardens, and a gym larger than many houses in Zimbabwe's capital city.

Gono also owns numerous farms, which were confiscated by the Mugabe government. One is near Norton, which, when the seasonal weather is dry, draws clean water through a 25-mile-long pipeline linked to a reservoir that is supposed to supply water for the people of Harare. Gono also owns property in Malaysia.

Chairman Bernanke and his wife reportedly own a Ford Focus; Governor Gono "glides around in a twelve cylinder Mercedes Benz," according to The Zimbabwe Times.

So, Gono would seem to be doing much better than Bernanke who makes a salary of less than \$200,000, but Bernanke's employer — the Fed — is making money, like, well, they were printing the stuff. Last year, America's central bank made \$52.1 billion, the highest in its 96-year history. The central bank made over \$30 billion the previous two years after making \$29 billion in 2006.

"This shows that central banking is a great business to be in, especially in a crisis," former Fed official Vincent Reinhart told The Washington Post. "You buy assets that have a nice yield, and your cost of funds is very low. The difference is profit." Low cost of funds? Well, I guess. Reinhart leaves out the part about creating money out of nowhere to buy the assets.

While it's the Zimbabwean way for the head banker to take the central-bank largesse for himself and build a private palace, in America, the central bank builds work palaces for its economists throughout the country. Before Gono moved into his place, "extra security sensors were recently installed on the outside perimeter and biometric iris recognition and finger print authentication systems were fitted in the interior, but he has yet to be convinced that it is entirely safe," the Times Online reported before he moved in. By the way, the security at America's central-bank locations is equally as tight.

Now, we have to be fair to Mr. Gono; things weren't exactly great in Zimbabwe when he took office in 2003. At the time the annual inflation rate was 619 percent. In an interview with Baffour Ankomah with New African in the fall of 2007, Gono blamed his country's inflation rate at 4,500 percent on "the differences that Zimbabwe has had with its former colonial master, the UK," and added, "we are busy laying the foundations for a serious deceleration programme."

But the Gono deceleration program didn't end up being all that serious: by the end of 2008 the inflation rate exceeded 231 million percent. At that time, the Times Online wrote, "A police inspector's Christmas bonus last week was worth one American cent on the widely used parallel black market."

So while Bernanke is worshiped in the United States, the Zimbabwean people have been angry with Gono — even resorting to throwing rocks at the Reserve Bank building. And many in the rock-throwing mob were low-grade civil servants, such as prison staff who had been trying to get money for Christmas, only to find that the banks had run out of cash, despite the introduction that morning of new Z\$1 billion, Z\$5 billion, and Z\$10 billion notes.

Gono believes that "there is a positive correlation between the drought and inflation." And he pointed out in his '07 New African interview that droughts have become more frequent. Instead of a drought every ten years, the drought had persisted through much of

the early and mid-2000s. "Those aspects have got a serious bearing on our inflation level," Gono said.

Forget about money printing. Inflation is all about the weather, lack of support from other nations, and political sanctions. In Governor Gono's mind, he has had nothing to do with the hyperinflation in his country. "No other [central-bank] governor has had to deal with the kind of inflation levels that I deal with," Gono told Newsweek. "[The people at] my bank [are] at the cutting edge of the country."

But Ludwig von Mises anticipated Gono's claims years ago, writing in [Economic Policy](#), "The most important thing to remember is that inflation is not an act of God, that inflation is not a catastrophe of the elements or a disease that comes like the plague. Inflation is a policy."

Mr. Bernanke also feels his central bank has nothing to do with inflation. "Well, [the Fed is] an institution that people don't hear so much about but it's a very important one. It manages monetary policy for the country. It's one of the main tools we have for stabilizing our economy and keeping prices stable," Bernanke told 60 Minutes.

As Murray Rothbard quipped in [The Case Against the Fed](#),

The culprit solely responsible for inflation, the Federal Reserve, is continually engaged in raising a hue-and-cry about "inflation," for which virtually everyone else in society seems to be responsible. What we are seeing is the old ploy by the robber who starts shouting "Stop, thief!" and runs down the street pointing ahead at others.

So you need dams and irrigation equipment? But of course the citizenry has not saved and accumulated capital because what they did save was confiscated by the government directly or inflated away. Governor Gono has the answer. "We are printing money to build dams and buy irrigation equipment," he explains. "Combine that infrastructure and the abounding energy of our people to succeed, and you have the makings of an agricultural revolution that is bound to take us to levels not seen in our living memory."

But, Zimbabwe already had an agricultural revolution. It was once one of southern Africa's most prosperous countries, referred to as "the breadbasket of Africa." Its Victoria Falls is one of the seven natural wonders of the world. The Zambezi River boasts abundant wildlife and pulsing rapids. And the country's lush soil is the envy of all of Africa. The country is said to hold 80 percent of the world's platinum deposits and huge reserves of natural gas. And along with its rich natural resources, the Zimbabwean population boasts a literacy rate exceeding 90 percent.

"Zimbabwe's lush soil is the envy of all of Africa. The country is said to hold 80 percent of the world's platinum deposits and huge reserves of natural gas. And along with its rich natural resources, the Zimbabwean population boasts a literacy rate exceeding 90 percent. So what happened?"

So what happened?

Committed Marxist Robert Mugabe took over in Zimbabwe in 1980. In addition to running the printing presses, Mugabe and the Zimbabwe parliament pushed through an amendment to their constitution in 2000 allowing for the seizure of white-owned farmland, despite voters turning the measure down just two months prior.

Now the country that was for many years a major food exporter to the region has a quarter of its citizens dependent on international food relief. And while Gono blames the heavens for being stingy with the rain, an all-party parliamentary committee warned before the start of the rainy season that production would be at an all-time low due to shortages of diesel, seed, fertilizer, chemicals, functioning farm machinery, and skilled labor.

Printing money with more zeros will not increase production — just the opposite. But Gono looks to America for inspiration. "Look at the bridges across the many rivers in New York and elsewhere," Gono tells *New African*, "and the other infrastructure in the country that were built with high budget deficits. There are times when it is necessary to dig deeper and construct or reconstruct."

"Therefore, printing money to sustain lives," sounding like the über-Keynesian, "to build infrastructure and a springboard from which to leap forward, cannot be bad." That sounds familiar. That's what the financial rescue of 2008 and 2009 was all about: sustaining lives (especially those on Wall Street and in Detroit) and providing a springboard for consumption. Spending on shovel-ready infrastructure, hiring census workers, and all that.

And Bernanke has been celebrated for pulling the American economy back from the edge of the abyss with a massive expansion of its balance sheet and interest rates set just north of zero.

And now Washington and the Federal Reserve believe they can cure what ails the US economy and the speculative binge that caused the financial meltdown with stringent regulation. The *London Times* reports that in his "pugnacious lunchtime" speech in late January, President Obama introduced a "sweeping series of measures aimed at checking the behavior of banks," which will be the "biggest regulatory crackdown on the banks since the 1930's."

Yes, the authorities in Zimbabwe have been cracking down as well. "There is a very high level of indiscipline and corruption in the Zimbabwean economy," Gono told *Newsweek*. "I would enact tougher legislation that would ensure offenders would never do it again."

Gono went as far as closing down the Zimbabwean Stock Exchange in November of 2008, and said a couple months later "unless there is more discipline and honor, the exchange will stay closed. I can't be bothered. I don't know when it will open." Governor Gono then commissioned a study of the stock exchange, and unsurprisingly the study

argued "that the Stock Market has been traditionally one of the drivers behind Zimbabwe's hyperinflation." The stock market opened again in February of 2009 but trading is thin and is conducted only in US dollars.

One Zimbabwean businessman told the BBC

I don't even know if I'll have a job at the end of the week, because there is so much uncertainty. There are so many companies closing down. It is quite interesting to see people going in banks with bags and sometimes even suitcases. You know that there are large amounts of money in there — which unfortunately are not going to buy much.

"The things that we buy — the groceries at home, the things we get for our two children — we have to buy immediately, as soon as we get the money," according to one woman. "We know that if we wait a bit, the prices are going to go up again. If we wait another week, we will not be able to afford anything."

We're repeatedly reminded that Ben Bernanke is the foremost expert on the Great Depression. "The Depression was an incredibly dramatic episode — an era of stock-market crashes, breadlines, bank runs and wild currency speculation, with the storm clouds of war gathering ominously in the background... For my money, few periods are so replete with human interest," the Fed chairman told Time. Bernanke believes that the Federal Reserve was too tight with monetary policy, making matters worse. Create more money and save failing banks is his prescription.

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Bernanke's counterpart in Zimbabwe has studied the same history and came to the same conclusion. "I'm a student of economic histories of countries and I can tell you that what we are doing is not unique," Gono told New African. "If you study carefully the history of the American economy, if you look at Chinese history, if you look at Russian history, British history and others, you will find that at some point they had to rely on their central banks."

Bill Bonner wrote recently in *The Daily Reckoning*, "Several countries are already past the point of no return. Even if America taxed 100% of all household wealth, it would not be enough to put its balance sheet in the black. And Professors [Kenneth] Rogoff and [Carmen] Reinhart show that when external debt passes 73% of GDP or 239% of exports, the result is default, hyperinflation, or both. IMF data show the United States already too far gone on both scores, with external debt at 96% of GDP and 748% of exports."

"To ensure that my people survive, I had to print money," Gono told Newsweek. "I found myself doing extraordinary things that aren't in the textbooks. Then the IMF asked the U.S. to please print money. The whole world is now practicing what they have been saying I should not. I decided that God had been on my side and had come to vindicate me."

Governor Gono may have God on his side while doing extraordinary things, but Chairman Bernanke has President Obama on his. When announcing the Fed chairman's reappointment, the president cited Bernanke's "background, his temperament, his courage, and his creativity."

So, you might ask, what is Zimbabwe's inflation rate these days? It's hard to know for sure. But Steve Hanke, professor of applied economics at John Hopkins University and senior fellow at the Cato Institute, reports that "as of 14 November 2008, Zimbabwe's annual inflation rate was 89.7 Sextillion (10²¹) percent," that's a daily rate of 98 percent, with prices doubling every 24.7 hours. Since then, Hanke has not been able to update his index because the price data from Zimbabwe has deteriorated and is unreliable.

Helicopter Ben's policies haven't yet produced the kind of price-inflation numbers that Mr. Gono's policies have. But there is still time. According to our government's numbers, prices are going nowhere. But John Williams's numbers at shadowstats.com reveal that prices are rising at a 9.4% clip, despite the recession.

"No tool other than war can completely destroy an economy like inflation." Mr. Gono's quotes of course are laughable. But hopefully the point is made that inflation is no laughing matter, and hyperinflation is downright tragic. No tool other than war can completely destroy an economy like inflation. Zimbabwe is living proof — happening right now in our lifetimes. And yet it is America's central bank that in many ways has served as an inspiration for the Zimbabwean policies.

The great Henry Hazlitt wrote, "Inflation is a twisted magnifying lens through which everything is confused, distorted, and out of focus, so that few men are any longer able to see realities in their true proportions."

No two men are more confused and out of focus than Chairman Bernanke and Governor Gono.

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