The Fed's doing it again

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New York Times

Eight years ago Ben Bernanke, already a governor at the Federal Reserve although not yet chairman, spoke at a conference honoring Milton Friedman. He closed his talk by addressing Friedman's famous claim that the Fed was responsible for the Great Depression, because it failed to do what was necessary to save the economy.

"You're right," said Bernanke, "we did it. We're very sorry. But thanks to you, we won't do it again."

Famous last words. For we are, in fact, doing it again.

It's true that things aren't as bad as they were during the worst of the Depression. But that's not saying much. And as in the 1930s, every proposal to do something to improve the situation is met with a firestorm of opposition and criticism. As a result, by the time the actual policy emerges, it's watered down to such an extent that it's almost guaranteed to fail.

We've already seen this happen with fiscal policy: Fearing opposition in Congress, the Obama administration offered an inadequate plan, only to see the plan weakened further in the Senate. In the end, the small rise in federal spending was effectively offset by cuts at the state and local level, so that there was no real stimulus to the economy.

Now the same thing is happening to monetary policy.

The case for a more expansionary policy by the Fed is overwhelming. Unemployment is disastrously high, while U.S. inflation data over the past few years almost perfectly match the early stages of Japan's relentless slide into corrosive deflation.

Unfortunately, conventional monetary policy is no longer available: The short-term interest rates the Fed normally targets are already close to zero. So the Fed is shifting from its usual policy of buying only short-term debt, and is now buying long-term debt — a policy generally referred to as "quantitative easing." (Why? Don't ask.)

There's nothing outlandish about this action. As Bernanke tried to explain Saturday, "This is just monetary policy," adding, "It will work or not work in much the same way that ordinary, more conventional, familiar monetary policy works."

Yet the Pain Caucus — my term for those who have opposed every effort to break out of our economic trap — is going wild.

This time, much of the noise is coming from foreign governments, many of which are complaining vociferously that the Fed's actions have weakened the dollar. All I can say about this line of criticism is that the hypocrisy is so thick you could cut it with a knife.

After all, you have China, which is engaged in currency manipulation on a scale unprecedented in world history — and hurting the rest of the world by doing so — attacking America for trying to put its own house in order. You have Germany, whose economy is kept afloat by a huge trade surplus, criticizing America for running trade deficits — then lashing out at a policy that might, by weakening the dollar, actually do something to reduce those deficits.

As a practical matter, however, this foreign criticism doesn't matter much. The real damage is being done by our domestic inflationistas — the people who have spent every step of our march toward Japan-style deflation warning about runaway inflation just around the corner. They're doing it again — and they may already have succeeded in emasculating the Fed's new policy.

For the big concern about quantitative easing isn't that it will do too much; it is that it will accomplish too little. Reasonable estimates suggest that the Fed's new policy is unlikely to reduce interest rates enough to make more than a modest dent in unemployment. The only way the Fed might accomplish more is by changing expectations — specifically, by leading people to believe that we will have somewhat above-normal inflation over the next few years, which would reduce the incentive to sit on cash.

The idea that higher inflation might help isn't outlandish; it has been raised by many economists, some regional Fed presidents and the International Monetary Fund. But in the same remarks in which he defended his new policy, Bernanke — clearly trying to appease the inflationistas — vowed not to change the Fed's price target: "I have rejected any notion that we are going to try to raise inflation to a super-normal level in order to have effects on the economy."

And there goes the best hope that the Fed's plan might actually work.

Think of it this way: Bernanke is getting the Obama treatment, and making the Obama response. He's facing intense, knee-jerk opposition to his efforts to rescue the economy. In an effort to mute that criticism, he's scaling back his plans in such a way as to guarantee that they'll fail.

And the almost 15 million unemployed American workers, half of whom have been jobless for 21 weeks or more, will pay the price, as the slump goes on and on.

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Abandoning Greene hurt Democrats

Jonathan David Farley
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Guest Columnists

On Nov. 2, Democrats lost every statewide and congressional race in South Carolina except in Congressman Jim Clyburn's gerrymandered district. But they defeated themselves. Consider Delaware and South Carolina.

After Christine O'Donnell won the Republican Party's Senate nomination in Delaware over her party's preferred candidate, she received the blessings of the Republican establishment, plus $1 million. In South Carolina, Democrat Alvin Greene, having defeated the candidate his party's establishment figures preferred, received $165 via Paypal during a typical month that we managed his campaign Web site.

S.C. Democratic Party chair Carol Fowler fired the first shot, seceding from the party and attacking the top of the ticket. Fowler asked Greene to withdraw, and kept his name off the party Web site.

Clyburn, the third-ranking Democrat in the U.S. House, for whom Greene had voted ever since he could vote, called Greene's victory "elephant dung," implying that Greene, not Greene's pro-Republican opponent, was a Republican plant. Clyburn, leveling ever-mutating slanderous charges that were shown to be false one by one, announced that he would vote for a Mazie Ferguson.

The irony is that the only people thereby assisting the Republicans were Clyburn, Fowler and other high-ranking Democrats.

Greene did face a serious charge, but he was and is innocent until proven guilty, a principle in the law that Mr. Clyburn ignores.

Liberals mocked Greene because he speaks poorly on TV, even though his platform was identical to, or more progressive than, President Obama's. For example, Greene supports universal health care. Unions that endorsed Al Gore, whose advocacy of free trade gutted labor, opposed Greene, who agrees with the unions. Progressives who held their nose and voted for John Kerry for president should have flocked to a man who won the primary without the help of corporations, without the help of lobbyists, without the help of fat cats and all those people who control our senators and congressmen.

Frances Close, a longtime Democrat, managed the Green Party candidate's campaign. She's been a Democrat her whole life, she says, but if she sees a better alternative to the Democratic nominee, why would she vote for the Democrat? "I don't think that makes sense," Close argued. "I'm not a Democrat like that." But she was a "Democrat like that" when Democrats refused to vote for clearly the best candidate in the 2004 presidential race, consumer advocate extraordinaire Ralph Nader. Nader was far better than Gore or Kerry, but Democrats would not support him, citing the need to beat the Republicans.

On Oct. 1, 2010, Michael Moore implied he would volunteer to make campaign ads for Democratic candidates, even those who would lose, writing, "I don't know a single person in Hollywood who wouldn't shoot and produce those spots for you for FREE." But Moore never responded to the Greene campaign's requests for assistance.

Still, Alvin Greene won 28 percent of the vote, with the Green Party getting 9 percent. Since the Green Party won only 0.12 percent of the vote in the 2008 presidential elections, Greene might have gotten 37 percent without the Democratic Party-sanctioned defections. And if the Democratic Politburo had not attacked Greene, he could have gotten 42 percent, topping O'Donnell's total.

That's with no money. As Greene reminded one of us when we watched election returns in his home, Obama only won 45 percent of the South Carolina vote in 2008, with millions of dollars.

In short, Greene was no joke. His candidacy was killed by his own party.

The Democrats suffered a defeat without war, well deserved.

Ms. Warren and Dr. Farley are members of the Warren Group, a Los Angeles political consulting company that advised Mr. Greene's campaign.