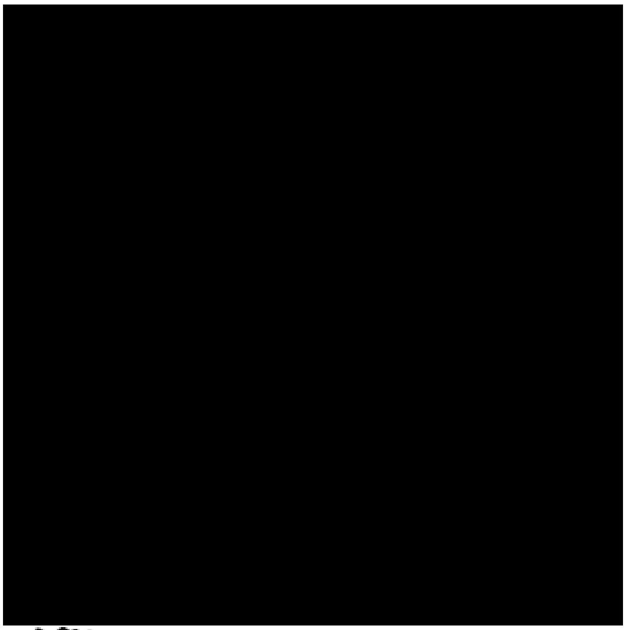
Democrats Boycott House Hearing Critical of Fed Policy



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The House Domestic Monetary Policy and Technology Subcommittee concluded in hearings March 17 — apparently boycotted by committee Democrats — that the Federal Reserve Bank's inflationary policies were hurting retirees at the expense of the economy's financial sector. The House Domestic Monetary Policy and Technology Subcommittee is chaired by Representative Ron Paul (R-Texas), a longtime critic of the Federal Reserve's inflationary policies.

The hearing on the Federal Reserve comes as the Fed reported this week that its balance sheet increased to a record $2.587 trillion in "assets," mostly U.S. Treasury debt purchased on the open market. The Federal Reserve purchase of government debt with money it prints out of thin air increases the supply of money — the traditional definition of inflation — and eventually leads to price inflation (the modern definition of inflation used by Federal Reserve Chairman Ben Bernanke).

Witnesses testifying March 17 before the subcommittee included Lewis E. Lehrman, Senior Partner of L.E. Lehrman & Co. and former Chairman of the U.S. Gold Commission during the Reagan administration; James Grant, Editor, *Grant's Interest Rate Observer*; and Economics Professor Joseph T. Salerno of Pace University, New York and the Ludwig von Mises Institute.

"I really believe this is a critical hearing," House Financial Services Committee Chairman Walter Jones told subcommittee members attending. Jones went on to read to members of the Monetary Policy Subcommittee (which his committee oversees) a letter from a constituent in his district about the impact of inflation on retirees: "I have been retired from Ma Bell for 22 years and my pension has only increased once…. For people like us, in this situation, we are getting drained. The way things are going my wife and I will have to hope to die … We cannot afford to live."

Witnesses before the subcommittee explained why retirees were getting squeezed by the Federal

Reserve's monetary inflation policy. "Inflation has shown up first in commodity and stock rises," Lehrman told committee members. "Since the expansive Federal Reserve program of Quantitative Easing began in late 2008, oil prices have almost tripled, gasoline prices have almost doubled. Basic world food prices, such as sugar, corn, soybean, and wheat, have almost doubled." Lehrman noted that the unprecedented spike in world food prices caused by the Fed could cause starvation in some impoverished areas of the world, and has led to higher food prices in the United States as well.

Dr. Salerno informed subcommittee members that monetary inflation does not conform to American ideas of fairness. "The key point is that prices and wages do not all increase at the same time during inflation. When the Fed initially expands the money supply, not everyone receives a share of the new money immediately. There is no Friedman-Bernanke helicopter that spreads the money evenly throughout the country." The "Friedman-Bernanke helicopter" remark refers to speeches by economist Milton Friedman and Bernanke where both speculate that a threat of deflation could be defeated by printing money and throwing it from helicopters. But Salerno noted that much of American history — from 1792 through the creation of the Federal Reserve in 1913 — saw mild deflation in consumer prices as well as strong industrial growth. People on a fixed income experienced a slight increase in their standard of living during those times. On the other hand, the Federal Reserve's deliberate policy of decreasing the value of the dollar hurts retirees and those on a fixed income. Salerno noted that these people do not receive the benefits of currency inflation: "Of course, those living on fixed incomes such as pensions and life insurance annuities suffer a cruel and relentless decline of their living standards that is never reversed."

Banks and big financial operations on Wall Street do benefit from inflation, Salerno noted. "The rapid decline of the purchasing power of the dollar, especially since 1971, has involved a massive and surreptitious transfer of real income and wealth from productive laborers, entrepreneurs, and investors to those privileged corporations and financial institutions that are the recipients of government largesse and bailouts."

Despite the fact that the witnesses all testified to the fact that Federal Reserve policy was benefiting Wall Street fatcats at the expense of retirees, no Democrats attended the meeting. Of course, all three witnesses were criticizing the Federal Reserve from a free market perspective, most adhering to the Austrian school of economics. It's unclear if the House Democratic members of the subcommittee were using a "Wisconsin Strategy" of avoiding the hearings. "The office of the ranking Democrat on the subcommittee, William Lacy Clay, was unable to immediately explain why he did not attend," Reuters wire service reported March 17. Rep. Paul noted at the beginning of the hearing that "the ranking member, Mr. Clay, is going to be coming later, but he has advised me to go ahead and we can start our hearings." Clay never arrived at the hearings, and neither did any of his Democratic colleagues.

Free market blogger Lew Rockwell of LewRockwell.com suggested that "all Dems decided to absent themselves in solidarity." Rockwell posited that the absence of Democrats may have been a reaction to the last hearings where Professor Thomas DiLorenzo of Loyola University testified and endured character assassination on his critical book about Abraham Lincoln. "After the first hearing," Rockwell speculated, "[leftist *New York Times* columnist Paul] Krugman, WaPo [*Washington Post*], all the Fed-owned propagandists joined in to attack Tom and Ron, but they soon discovered something. Outside of the neocons, people either agree with Tom or don't care about Lincoln."

Salerno labeled "farcical" Fed Chairman Bernanke's claim that proof of economic recovery could be found in a rise in stock prices. In essence, Salerno explained that because Bernanke is in the business of inflating prices by increasing the volume of money, it's not surprising that he would tout the increase in the prices of some stocks as an economic "success." But higher prices by themselves do not produce more wealth. Salerno explained of Bernanke's speech back on January 13:

> Oddly, he seized on the Russell 2000 index of small cap stocks, which has increased 25 percent in the last six months, stating "A stronger economy helps smaller businesses." In other words, despite the stagnant job creation and sluggish growth of real output, Mr. Bernanke has declared Fed policy a success on the basis of yet another financial asset bubble that threatens again to devastate the global economy. This would be farcical were it not so tragic. But what else can be expected from the leader of an institution whose very rationale is to manipulate interest rates and print money?

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