

What will the Federal Reserve do about inflation?

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Last week, Federal Reserve Chairman Ben Bernanke gave a speech in front of the Economic Club of Washington, saying he expected "inflation to remain subdued for some time." The speech was what we have come to expect from Bernanke, in which nothing came across as much of an emergency. He did not unleash any surprising or unexpected news. He emphasized that we are better off than we could be thanks to actions previously taken by the Fed. And, when all was said and done, no immediate action seemed to be needed.

Therefore, saying inflation will not pose a threat "for some time" gives the federal official a free pass to be passive — something that sounds overtly Bernankian.

Back in January of 2008, Bernanke argued that the United States was likely to sidestep a recession all together.

This was well before anyone thought we were due to experience the worst financial turmoil since the Great Depression. This



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was still when the masses believed having a Federal Chairman with as much expertise in all-things-Great-Depression would keep us from stepping anywhere near a financial apocalypse.

Yet, this was also at a time when our job market was softening, energy prices were rising, the stock market was in turmoil and home values were on the slide. All of these factors were punching holes in consumers. Plus, government spending accounted for "more than two-thirds of all U.S. economic activity."

Saying that we were likely to avoid a recession when issues that suggested otherwise were raining down all around him was, to say the least, concerning. Now, the same concern can be attributed to his downplay of our country's current inflationary risk. Simply stating that the Fed "is committed to keeping inflation low and will be able to do so" is comforting only in the sense that local weather predictions are comforting. Because action will not be taken until inflation is rapidly deteriorating the dollars in Bernanke's personal wallet, we will not know

if the Federal Reserve's reactionary efforts will be effective.

Even more frightening, we will not know if Bernanke will have the courage to tighten money on the other side of a wimpy recovery when job rates are still low.

Someone has to be accountable, and that someone has to be the Federal Reserve chairman. But, is Bernanke hardnosed enough to raise rates before our economy returns to the comfort of the good life? After all, historically, less criticism has been thrown the way of the person in the chairman's position when he is giving away money as opposed to when he takes it away.

While Bernanke has faced some tremendous challenges, he has never been in the position of substantially raising the federal funds rate.

At some point, whether unemployment is at 10 percent or 1 percent, will are going to find out if Bernanke is willing to face the criticism and consequences, or continue to duck.

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