So it’s come to this. A former professor of economics turned central banker can keep policymakers and investors on the edge of their seats, waiting for his latest pronouncement. That tells us two things. One: in the near-term the President and the congress are irrelevant, frozen in mutual antipathy and therefore not in the policy game as deficits mount and another downgrade threatens. Two: Federal Reserve Board chairman Ben Bernanke, afflicted with a dual mandate to fight both inflation and unemployment, has decided that boosting the labor market takes precedence over his other mandate -- or, to be more favorable to the chairman, that inflation is so tame that he can concentrate on engineering a “sustained improvement in labor market conditions.” And will continue to focus on jobs and run the presses even when the economy is growing at a relatively rapid rate.

Never mind that prices rose in August at their fastest rate in three years, due largely to increases in fuel and food prices. The Fed prefers to take those annoying items out of its inflation calculations, but consumers who eat, drive and heat their homes are not certain that the Fed’s economists are in close touch with the reality of everyday living.

Inflation be damned, full speed ahead with the launch of QE3, which will have the Fed buying mortgage-backed securities to the tune of $40 billion every month so that, er, people
who might not otherwise be able to afford to buy homes will be able to do so. Sound familiar?

Along with existing programs, the firm of Bernanke & Co. will be pumping a total of $85 billion of new money into the economy every month for the indefinite future. The frosting on the cake, what makes last week’s move QE3+, is the monetary policy gurus’ decision to keep interest rates low for longer than previously promised -- to mid-2015 rather than the end of 2014, even if a recovery is underway by then. That package, promise the Fed’s economists, will bring the unemployment rate down from its current 8.1% to between 6.7% and 7.3% by the end of 2014. But savers -- mainly older people -- must be gnashing their teeth as returns on their savings and pensions are now certain to remain only a tad above zero.

All of which proves that the Fed has to rescue the economy from the President’s failures says Mitt Romney. All of which proves that there is light at the end of the tunnel, says Barack Obama, and we will emerge from the darkness into that light if you don’t change horses in mid-stream, to mix a metaphor by borrowing from Franklin Roosevelt’s 1936 plea for re-election after the unemployment rate fell from 25% to 17% during his first term.

In short, Bernanke gave investors what they say they wanted, and then some. If the jobs market doesn’t pick up, and in a major way, no one can fault Bernanke for not trying. But the chairman’s critics do feel they can blame him for laying the ground work for a round of inflation that will hit when he is safely back in the Princeton University library working on “What I Did During the Great Recession”, or whatever he chooses to title his memoirs.

These critics are in the process of preparing an effort to rein in the Fed, or to put it more directly, seriously curtail its independence. They are proceeding down several tracks, the first being to begin a discussion of restoring some sort of gold standard to end the era of fiat money.

Good as gold was the phrase used to describe the paper notes that many governments issued, because they could be traded in for gold. That saying became one for the history books when Richard Nixon decoupled the dollar from gold, leaving us with fiat money, backed only by the explicit promise of the government that it will be accepted in exchange for stuff you want to
buy (legal tender), and by the implicit promise that it would retain its value. Of course, it hasn’t, and the willingness of Bernanke to print more and more dollar bills has some thinkers worrying that even greater depreciation of the value of the dollar is in our future. And has some holders of Treasury IOUs fearful that they will be repaid in dollars with a lot less purchasing power than those they lent the US government. Think the Chinese and the almost $1.2 trillion of US debt stored in their vaults. Think Moody’s, prepared to follow S&P by downgrading America’s credit rating.

Two years ago Robert Zoellick, then president of the World Bank, suggested that we need a new international monetary system that “should consider employing gold as an international reference point of market expectations about inflation, deflation and future currency values…” Not a gold standard, but the use of gold to get a clue to inflation expectations. Such fine distinctions escape most commentators, so reaction varied between behind-the-hand snickers and outright derision.

Fast forward almost two years to Tampa Florida, and the Republican convention, where the delegates decided to call for a commission to study the possibility of a return to the gold standard. A fringe group, sniffed critics, who might have changed their mind about fiat money when Mario Draghi, head of the European Central Bank, announced that he would do what it takes to save the euro, and that what it takes includes printing euros with which to buy the sovereign bonds of peripheral eurozone countries.

Nothing really new here. History teaches that countries weighed down by debts, but unwilling to raise taxes, cut social spending, or institute growth-enhancing reforms, will run the presses and repay what they owe with depreciated dollars, euros, pounds, pesos, reals, and whatever Zimbabwe decides to call its currency.

None of this means that America is about to go back onto some version of the gold standard. But it does mean that critics who want to dilute the Fed’s independence have the wind at their backs. The new congress will almost (note the “almost”) certainly establish some sort of procedure to allow it to “audit” the Fed -- and not only its books, but its monetary policy. This new procedure will go beyond the present system, which merely requires senate approval of the president’s board appointments and the chairman to submit to periodic grilling by
members of various congressional committees.

Given that politicians favor expansionary policies, and leave it to their successors to clean up the inflationary mess created by too-loose monetary policy, such audits bode ill for the future value of the dollar, and for the ability of America to continue to parlay the American currency’s “safe haven” status into record low interest rates. But doing nothing also has its risks, as it would demonstrate that a Fed chairman can strike a policy balance that subordinates control of inflation to his notion of what constitutes a properly functioning labor market.

But cheer up. Bernanke or his successor might just prove able to bring us safely down from the sugar high that is QE3+.