ALEX JONES' PRISONPLANET

Fed "Independence" Is a Scam … And No Reason to Prevent a Full Audit

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Congress will vote tomorrow on auditing the Federal Reserve.

The Federal Reserve says that an audit will interfere with it's "independence". For example, in Congressional testimony on 2009, the vice chair of the Fed used the "i" word 30 times.

Democratic whip Steny Hoyer is urging Dems to vote no on auditing the Fed in order to preserve the Fed's "independence":

This bill impedes the independence of this critical institution. In order for the Federal Reserve to do its job effectively, it should not be subject to short-term political pressures.

Hoyer doesn't speak for the wishes of Democrats. The overwhelming majority of Americans favor a full and complete audit, and disagree with the "independence" argument. For example, Bloomberg noted in 2010:

A majority of Americans are dissatisfied with the nation's independent central bank, saying the U.S. Federal Reserve should either be brought under tighter political control or abolished outright, a poll shows.

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Americans across the political spectrum say the Fed shouldn't retain its current structure of independence. Asked if the central bank should be more accountable to Congress, left independent or abolished entirely, 39 percent said it should be held more accountable and 16 percent that it should be abolished. Only 37 percent favor the status quo.

Are the Fed and Congressman Hoyer right and the people wrong? Do we need to protect the Fed against a short-sited Congress which cares only about political concerns?

What the Last Audit Showed

Let's start by looking at what information was revealed in response to the previous, *watered-down*version of Ron Paul's Fed audit bill:

- The Fed gave huge bailouts to foreign banks, including Gaddafi's Libyan bank, the Arab Banking Corp. of Bahrain, and the Banks of Bavaria, Korea and Mexico

- The Fed bailed out hedge funds, McDonald's and Harley-Davidson

- The Fed threw money at "several billionaires and tens of multi-millionaires", including Christy Mack, the wife of Morgan Stanley's John Mack, billionaire businessman H. Wayne Huizenga, and Michael Dell, co-founder of Dell Computer, hedge fund manager John Paulson and private equity honcho J. Christopher Flowers

Moreover, there is strong evidence that the Fed's decisions are often influenced by conflicts of interest. The non-partisan Government Accountability Office calls the Fed *corrupt and riddled with conflicts of interest*. Nobel prize winning economist Joseph Stiglitz agrees, saying that the World Bank would view any country which had a banking structure like the Fed as being corrupt and untrustworthy.

As Senator Sanders noted last October:

A new audit of the Federal Reserve released today detailed widespread conflicts of interest involving directors of its regional banks.

"The most powerful entity in the United States is riddled with conflicts of interest," Sen. Bernie Sanders (I-Vt.) said after reviewing the Government Accountability Office report. The study required by a Sanders Amendment to last year's Wall Street reform law examined Fed practices never before subjected to such independent, expert scrutiny.

The GAO detailed instance after instance of top executives of corporations and financial institutions using their influence as Federal Reserve directors to financially benefit their firms, and, in at least one instance, themselves. "Clearly it is unacceptable for so few people to wield so much unchecked power," Sanders said. "Not only do they run the banks, they run the institutions that regulate the banks."

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The corporate affiliations of Fed directors from such banking and industry giants as General Electric, JP Morgan Chase, and Lehman Brothers pose "reputational risks" to the Federal Reserve System, the report said. Giving the banking industry the power to both elect and serve as Fed directors creates "an appearance of a conflict of interest," the report added.

The 108-page report found that at least 18 specific current and former Fed board members were affiliated with banks and companies that received emergency loans from the Federal Reserve during the financial crisis.

[T]here are no restrictions in Fed rules on directors communicating concerns about their respective banks to the staff of the Federal Reserve. It also said many directors own stock or work directly for banks that are supervised and regulated by the Federal Reserve. **The rules, which the Fed has kept secret, let directors tied to banks participate in decisions involving how much interest to charge financial institutions and how much credit to provide healthy banks and institutions in "hazardous" condition.** Even when situations arise that run afoul of Fed's conflict rules and waivers are granted, the GAO said the waivers are kept hidden from the public.

(Indeed, the Fed routinely allows favored bankers to make billions of dollars from inside information.)

The Fed also picks winners and losers. in an interview this weekend with Der Spiegel, Paul Volcker – while trying to support the Fed's argument for independence – actually undermines it:

SPIEGEL: Lawmakers on Capitol Hill are thinking about tougher controls over the Federal Reserve.

Volcker: I think the loss of independence and authority of the Federal Reserve would be a very serious matter for the United States. Not just in terms of monetary policy but in terms of our place in the world. People look to strong, credible institutions and I think the Federal Reserve has been such an institution. If that's lost or too hamstrung by legislation I think we will regret it.

SPIEGEL: But is the Fed still the same kind of institution as during your tenure as chairman? Or is it now more of a governmental instrument? The Fed is managing the TARP program and is also buying government bonds.

Volcker: In some sense the Federal Reserve is always an instrument of the government. It is a government body but it is independent within government. But you are right in the sense that **part of the concern is that they have involved themselves quantitatively in entering markets and in that process, you are supporting some markets and not others.** That is an area in which the Federal Reserve has never wanted to get into and one that most central banks don't want to get into. **If you are going to maintain your independence you have to avoid that**. To intervene in particular sectors of the market is not the proper role for the central bank over time. It could be justified only by extreme emergency.

Intervening and supporting some market players (Goldman, AIG, etc.) and not others (Lehman, etc.) is precisely what Bernanke has been doing. Whatever can be said for the Fed in the past, picking winners and losers is "not the proper role for the central bank", in Volcker's words. Without an audit, we will never know which "winners" were saved and which "losers" were left to die, or why. Nor do we really currently know which bailouts and other actions were truly performed under emergency conditions – to stave off catastrophe – and which were done to help out financial companies for other reasons.

Moreover, Bernanke gave many billions to private foreign banks and foreign central banks (and seethis).   While Fed apologists say that the bank's "independence" must be preserved, the fact that the Fed has sent trillions overseas shows the Fed is somewhat independent of *American interests.*

And the question has to be asked: Has the Fed been picking winners and losers among countries? Among private banks?

Current Audits Are Inadequate

The Fed and its cheerleaders pretend current audits are sufficient.

For example, Steny Hoyer argues today:

Congress already conducts regular and robust oversight of the Federal Reserve and actually expanded GAO's audit authority two years ago in the Dodd-Frank Wall Street Reform and Consumer Protection Act. It expanded the types of audits GAO may conduct of the Federal Reserve, as well as the data that must be disclosed to the public. The Federal Reserve's financial accounts have long been subject to audit both by the GAO and an outside, independent audit firm.

But Robert D. Auerbach – an economist with the U.S. House of Representatives Financial Services Committee for eleven years, assisting with oversight of the Federal Reserve, and now Professor of Public Affairs at the Lyndon B. Johnson School of Public Affairs at the University of Texas at Austin – points out that current audits are wholly inadequate:

A 1997 Gonzalez investigation, assisted by the GAO, found extensive corrupt accounting at the cash section of the Los Angeles branch of the San Francisco Fed Bank with dire possibilities at other Fed vault facilities. Greenspan informed Gonzalez that nearly $500 thousand had been stolen from Fed vaults by Fed employees from 1987 to 1996. The Gonzalez/GAO investigation indicated this was an understatement.

The Fed Banks' vaults contain uncirculated currency and coin transferred from the Bureau of Engraving and Printing and cash from banks throughout the country. **The Fed district banks and branches need to be audited with GAO personnel who are trained and experienced in central bank operations and auditing**. When will these audits be done and reported to the Congress or will Bernanke dismiss this national security problem as an urban legend?

Former Federal Reserve economist William Bergman writes:

The appearance of extensive auditing authority doesn't mean audits are effective. Good auditing requires the willingness and ability of auditors to do their jobs. Some people view the Inspectors General, generally, and the Federal Reserve Board's Office of Inspector General, specifically, as less than effective or independent in pursuing their mandates. In turn, some people question whether the Board's oversight of the Reserve Banks, including the Federal Reserve Bank of New York, might be less than arms-length. More fundamentally, from the point of view of the supporters of the recently introduced legislation, there are a variety of restrictions on the ability of the GAO to audit the Fed. There are significant exceptions for monetary policy and transactions with foreign central banks and international organizations like the Bank for International Settlements and the IMF.

Would They Fight Against Transparency If they Had Nothing to Hide?

The former Vice President of Dallas Federal Reserve said that the failure of the government to provide more information about the bailout signals corruption. ABC reports:

Gerald O'Driscoll, a former vice president at the Federal Reserve Bank of Dallas and a senior fellow at the Cato Institute, a libertarian think tank, said he worried that **the failure of the government to provide more information about its rescue spending could signal corruption**.

"**Nontransparency in government programs is always associated with corruption in other countries, so I don't see why it wouldn't be here**," he said.

Thomas Woods said in 2009:

There is no good reason for Americans not to know the recipients of the Fed's emergency lending facilities. There is no good reason for them to be kept in the dark about the Fed's arrangements with foreign central banks. These things affect the quality of the money that our system obliges the American public to accept.

The Fed's arguments against the bill are unlikely to persuade, and will undoubtedly strike the average American as little more than special pleading. Perhaps the most frequent of the claims is that a genuine audit would jeopardize the alleged independence of the Fed. Congress could come to influence or even dictate monetary policy.

This is a red herring. The bill is not designed to empower politicians to increase the money supply, choose interest-rate targets, or adopt any of the rest of the Fed's central planning apparatus, all of which is better left to the free market than to the Fed or Congress. It seeks nothing more than to open the Fed's books to public scrutiny. Congress has a moral and legal obligation to oversee institutions it brings into existence. The convoluted scenarios by which merely opening the books will lead to an inflationary catastrophe at the hands of Congress are difficult to take seriously.

At the same time, as we hear this objection repeated time and again, we might wonder just how independent the Fed really is, what with its chairman up for reappointment by the president every four years. Have these critics never heard of the political business cycle? Fed chairmen have been known to ingratiate themselves into the president's favor close to election time by means of loose monetary policy and the false (and temporary) prosperity it brings about. Let us not insult Americans' intelligence by pretending this phenomenon does not exist…

If there is any truth to the idea of Fed independence, it lay in precisely this: the Fed may reward favored friends and constituencies with trillions of dollars in various kinds of assistance, while keeping the public completely in the dark. If that is the independence we're talking about, no self-respecting American would hesitate for a moment to challenge it.

A related argument warns that the legislation threatens to politicize lender-of-last-resort decisions. Again, this is untrue. But even if it were true, how would that represent a departure from current practice? I hope we are not asking Americans to believe that the decisions to bail out various financial institutions over the past two years, and in particular to allow them to become depository institutions overnight that they might qualify for assistance, were made on the basis of a pure devotion to the common good and were not political at all. Most Americans, not unreasonably, seem convinced of another thesis: that **Goldman Sachs, for instance, might be just a little bit more politically well connected than the rest of us…**

If our monetary system were really as strong, robust, and beyond criticism as its cheerleaders claim, why does it need to rely so heavily on public ignorance? How can it be a sound banking system that depends on keeping the public in the dark about the condition of its financial institutions?

Let me also make clear that supporters of this legislation are strongly opposed to a watered-down version of the bill – which, incidentally, would only increase public suspicion that someone is hiding something.

If the Federal Reserve Transparency Act passes and the audit takes place, the American people will have achieved a great victory. If the legislation fails, more and more Americans will begin to wonder what the Fed could be so anxious to keep hidden, and the pressure for transparency will simply intensify. A recent poll finds 75 percent of Americans already in favor of auditing the Fed. The writing is on the wall.

The Federal Reserve may as well get used to the idea that the audit is coming. That would be a far more sensible approach than the counterproductive and condescending one it has adopted thus far, in which the peons who populate the country are urged to quit pestering their betters with all these impertinent questions. **The Fed should take to heart the words of consolation the American people are given whenever a new government surveillance program is uncovered: if you're not doing anything wrong, you have nothing to worry about.**

The superstitious reverence that Americans have been taught to have for the Federal Reserve is unworthy of the dignity of a free people. The Fed enjoys a government-granted monopoly on the creation of legal-tender money. It is not an unreasonable imposition for Americans to demand to know about the activities of such an institution. It is common sense.

"Independence" … a Scam

The senior S&L prosecutor (and professor of economics and law) Bill Black notes:

The sad fact is that very few Americans will be surprised that the Fed represented the interests of the SDIs [too big to fails, or "Systemically Dangerous Institutions"] even though they were directly contrary to the interests of the nation. **The Fed's constant demands for (and celebration of) "independence" from democratic government, combined with slavish dependence on and service to the CEOs of the SDIs has gone beyond scandal to the point of farce. I suggest organized "laugh ins" whenever Fed spokespersons prate about their "independence."**

(Indeed, the Fed has now agreed to backstop the derivatives exposure of American and foreign entities, which could result in multi-trillion dollar losses to the American people.)

Bill Bergman says:

How independent is the Fed, right now, to begin with? The Fed is not an apolitical beast. It has had politicians working there in formal leadership positions as well as staffing roles. The Fed's regulatory performance matters for the conduct of monetary policy, and the Fed's relationships with the banks it regulates and bails out deserve scrutiny. Recently, we've been through a financial calamity, and have endured the biggest spike in the unemployment rate since World War II. Investment returns crumbled in 2007 and 2008, and Federal Reserve monetary and other regulatory policy played a significant role in this calamity. Looking back a little further, how effective has the 'independent' Fed been as source of stable prices? Congress passed the law first mandating 'stable prices' as a goal for Fed monetary policy in 1977, and the CPI has tripled since then.

The FOMC [the Federal Open Market Committee] conducts monetary policy under authority delegated by the Congress. It seems reasonable to allow for some form of stronger inquiry in this area, especially after the worst financial and economic crisis since the Great Depression. One facet of a possible future investigation could deal with individual monetary policy 'transactions.' Under the quantitative easing posture adopted by the Fed in recent years, with a wider range of financial instruments bought to liquify the banking system and promote monetary and credit growth, the question arises – at what price were those instruments bought? Were they 'market' prices, or were they another way to apply public resources to overpay for bad assets and help large financial firms that got into trouble?

That may or may not be a valid avenue of inquiry, but it seems like we could benefit greatly from learning about the broader range of issues that could be tackled.

Audit the Fed? Sounds good to me.

We noted in 2010:

In March 2004, when Alan Greenspan was Fed chairman, he suppressed the opinions of those Fed officials who knew that there was a housing bubble.

Congressman Alan Grayson points out that – because the Fed unilaterally decided to hand out half a trillion to foreigners without any Congressional oversight, and that Bernanke testified that he didn't know who got the loot – the Fed must be subject to an audit.

Yves Smith and Tom Adams – in analyzing the Fed's lack of full disclosures regarding its extraordinary rescue operations – conclude:

Even a cursory inspection of the Fed's disclosures of its extraordinary rescue operations shows them to have been made only under duress, and then to be incomplete and deliberately unhelpful.

The reason this matters, is that, contrary to the Fed's claims of independence, it has been operating as an extra-legal off balance sheet entity of the Treasury, circumventing normal Constitutionally-stipulated budget processes. And rather than make adjustments in its practices to reflect its enlarged and now overtly political role, the Fed has instead been engaging in cynical, blatant misrepresentation, giving lip service to the idea of greater transparency in public, while fighting disclosure tooth and nail.

Since the Fed has entered into an openly political stance (and this dates back to Greenspan) and cannot be relied upon to make truthful and complete disclosures, the only recourse is to put it on a much shorter leash, which includes greater scrutiny, including third party validation. The Fed has brought on the audit demands via the unabashed and repeated abuse of its privileged role.

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The Fed seems awfully keen to steer clear of the fate that befell Lehman. Lehman was grossly and verifiably misvaluing some investments, namely Archstone and SunCal, that confirmed doubts about the veracity of its accounting. If you can't check any particular valuations, it's a lot harder to ask difficult questions. And unlike Lehman, the Fed can continue to account to no one.

The Fed is engaging in same practices that caused the crisis: failure to make timely disclosures, obfuscation, use of off balance sheet vehicles to distance itself from losses. This posture alone should disqualify the central bank from assuming a greater regulatory role.

The Fed and Treasury's three card monte operation is anti-democratic and possibly illegal, and to add insult to injury, voters are treated as if they have no right to know when they are ultimately footing the bill. The Fed's persistent stonewalling and deep seated hostility toward the public provide ample proof of the need for an audit.

The Fed argues that an audit would interfere with its monetary policy decisions. That is incorrect for at least two reasons.

Initially, the bills to audit the Fed specifically provide that no outside agency will interfere with the Fed's monetary policy decisions.

More importantly, decisions about what toxic assets should be accepted by the Fed as collateral, how such assets should be valued, and who bailout funds should be given to are wholly separate from the Fed's core monetary policy decision: raising or lowering interest rates.

Adjustment of interest rates has been the primary lever the Fed has applied to the economy since it's formation in 1913.

The Fed has also recently started using a radical new tool: replacing the money multiplier with interest payments for excess reserves deposited with the Fed. Personally, I strongly disagree with this as a policy tool because I believe that – in the name of preventing inflation – the Fed is guaranteeing prolonged deflation and the lack of a sustainable recovery. However, this is arguably an exercise of core monetary policy by the Fed.

But funneling hundreds of billions to foreign nations and foreign banks, accepting worthless junk from the too big to fails and marking it at unrealistic valuations, and doing the other things which the Fed has been doing recently are not core monetary functions. Congress never authorized these actions when they passed the Federal Reserve Act.

Therefore, the Fed's actions must be made transparent and subject to the light of day.