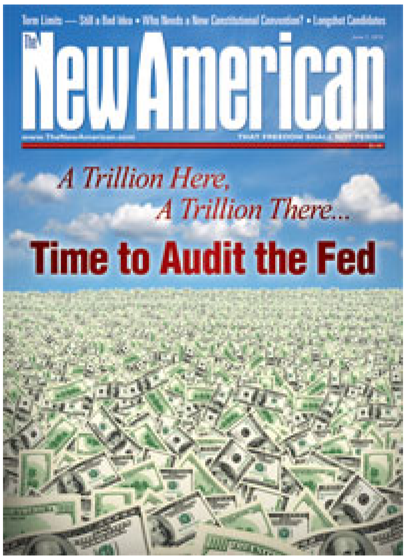
Time to Audit the Fed

The timing of the sellout by Senator Bernie Sanders (I-Vt.) could not have been more politically auspicious — or more suspicious. For months the Senator had been denouncing the secrecy of the Federal Reserve's bailout operations, which have exceeded two trillion dollars. For months he had been pledging that he would push for a genuine audit of the Fed. He authored an amendment in the Senate identical to "Audit the Fed" legislation in the House (H.R. 1207) authored by Congressman Ron Paul (R-Texas).



However, on May 6 Sanders caved in to pressures from the Obama administration, the Federal Reserve, and Wall Street. The "who-how-why" details behind the flip-flop are still largely unknown, but here is the "what" of the matter: In a last-minute switch, Sanders agreed to substitute a watered-down version of the audit as an amendment to financial reform legislation sponsored by Senate Banking Committee Chairman Christopher Dodd (D-Conn.).

The new Sanders amendment would provide the administration, the Fed, and Members of Congress with a certain level of cover, allowing them to claim that they had supported auditing the Fed, while at the same time allowing the Fed to continue most of its operations in secret, beyond the scrutiny of Congress and the public. The effort to push the Sanders amendment through on a rush vote on May 6 failed thanks to the efforts of Senator David Vitter (R-La.) a fierce Fed critic, who insisted on a side-by-side vote of the Sanders sellout amendment with the original audit amendment. Those two votes came the following Tuesday, May 11, with the original Sanders amendment (now known as the Vitter amendment) failing on a vote of 37 to 62, and the Sanders sellout amendment passing 96 to 0.

The Sanders flip-flop came late on a Thursday, before a very eventful weekend, and less than 72 hours prior to the Federal Reserve announcing that it was hopping on board the trillion-dollar bailout plan for Greece and Europe sponsored by the European Central Bank (ECB), the national central banks of Europe, and the International Monetary Fund (IMF). It strains credulity to imagine that Federal Reserve Chairman Ben Bernanke and his fellow Fed maestros did not already have details of the mammoth Euro bailout already finalized when they leaned on Sanders and his Senate colleagues. They certainly could not stand for these details to leak out in an audit, particularly in the heated atmosphere of looming elections and still-building Tea Party outrage over the Fed's earlier bailout actions. They hope that by limiting the Fed audit to a one-time event focused only on its earlier "emergency" bailouts, they can mollify the public with assurances of reform while continuing on as before without a worry about accountability or real scrutiny of their actions.

Club Fed & PIIGS in a Poke

An Associated Press story described the massive euro-bailout plan as "a bold $1 trillion rescue by the European Union." Bold? Expropriating the wealth and savings of hundreds of millions of taxpayers and investors to bail out socialist governments and the banks that have fed their unsustainable spendthrift policies is "bold"? Brazen, shameless, and morally reprehensible might be more appropriate adjectives. Criminal is probably not even too strong a term.

The old English adage, "Don't buy a pig in a poke," is certainly apropos advice regarding the Fed's latest venture. The maxim originated as a "let the buyer beware" warning against the fraudulent practice often employed by peddlers of selling a wiggling bag (a "poke") that supposedly held a piglet but in actuality held a cat, a decidedly less valuable and desirable source of meat. Prudent buyers demanded to see the contents of the poke (to "audit" it) before buying, hence the expression, "let the cat out of the bag."

With the Federal Reserve Transparency Act of 2009, H.R. 1207 (more commonly know as the "Audit the Fed" bill), Congressman Paul has been trying to force a look inside the poke. For obvious reasons, peddlers of the pig-in-a-poke confidence scheme at the Fed, Treasury, and certain big Wall Street firms don't want anyone to let the cat out of the bag.

The latest bailout is a giant case of PIIGS in a poke. PIIGS is the acronym economists and investors have applied to the (arguably) most troubled EU economies: Portugal, Italy, Ireland, Greece, and Spain. The PIIGS have also been dubbed "Club Med," owing to their extravagant government spending and their locations on the Mediterranean (with the obvious exception of Ireland). Weiss Research analyst Mike Larson provides this breakdown of the European sovereign debt "rescue package":

> The 16 countries that share the euro currency and the International Monetary Fund (IMF) are going to offer as much as 750 billion euros ($953 billion) in loans and aid to nations who are struggling with massive debts and deficits.

Individual euro-zone governments will pay 440 billion euros ($559 billion), while the EU will pay 60 billion euros ($76 billion) and the IMF will cough up as much as 250 billion euros ($318 billion).

The ECB, for its part, is going to purchase billions of dollars in government and private debt. Central banks in Germany, France, and Italy all are buying government debt. And the ECB is going to start offering three-month loans at fixed rates to institutions that need them. The cap on this program? None.

But that's not all; then comes Club Fed to join the bailout party for Club Med, offering "emergency currency swaps" — apparently without limit, not only to the ECB and EU central banks, but also to the central banks of Japan and Canada as well. *Businessweek* reported on May 10:

> The U.S. Federal Reserve will restart its emergency currency-swap tool by providing as many dollars as needed to European central banks to keep the continent's sovereign-debt crisis from spreading.

The swaps with the European Central Bank, Bank of England and Swiss central bank, as well as the Bank of Japan, will allow them to provide the "full allotment" of U.S. dollars as needed, the Fed said late yesterday and today in statements in Washington. A separate swap line with the Bank of Canada will support as much as $30 billion, the Fed said. The swaps were authorized through January 2011.

Authorized? By whom? Not by Congress. By the Federal Reserve, of course, which is a power unto itself — and intends to keep it that way. The *Businessweek* report continues:

> The Fed action was a complement to European policy makers' announcement of an unprecedented loan package worth almost $1 trillion to stop a crisis that threatened to shatter confidence in the euro. The U.S. central bank on Feb. 1 had closed all swap lines opened during the last crisis, triggered by the subprime-mortgage meltdown in 2007.

Crisis Begets Crisis, ?Bailout Begets Bailout

Ah, yes, the “crisis” excuse. A trillion dollars “to stop a crisis” of “confidence in the euro.” However, as many analysts have pointed out, even a trillion dollars, which not so long ago was an unthinkable sum, would only provide short-term relief to the problem of the PIIGS. And then what? Well, another bailout to prevent another “crisis,” of course. After all, isn’t that what happened here “during the last crisis” mentioned above by *Businessweek* (which has actually been an ongoing *series* of “crises”)?

And, as President Obama’s Chief of Staff Rahm Emanuel famously quipped in a November 2008 television interview, “You never let a serious crisis go to waste.” Emanuel continued: “And what I mean by that it’s an opportunity to do things you think you could not do before.”

Precisely how much the Fed’s current currency swaps for the euro crisis will eventually cost us is anybody’s guess, since it is a huge pig-in-a-poke operation, with no peeking inside the bag allowed. The Fed’s line is the same as that of every confidence man: “Trust me.” That, of course, is the point of the “Audit the Fed” movement; this matter is far too important to be left to guesswork and trust. The actions of the Fed and other central banks dramatically affect the jobs, savings, livelihoods, and financial well-being of every American (as well as those of all other human beings on the planet), yet the central bankers have exempted themselves from the scrutiny and audits that every other bank and corporation must submit to.

The Fed has been fighting tooth and nail to prevent the public from learning the details of its previous “crisis interventions,” now reportedly more than $2 *trillion*. A coalition of news groups, led by Bloomberg LLC, has won two court rulings on a U.S. Freedom of Information Act, or FOIA, lawsuit requiring the Fed to release documents concerning which banks and firms received the trillions in loans, and on what terms and based on what criteria. On May 3, attorneys for the Fed asked the full U.S. Circuit Court of Appeals in New York to reconsider a March 19 unanimous decision by a three-judge panel of the same Circuit in favor of the FOIA suit by Bloomberg, et al. The March 19 ruling had upheld an earlier decision against the Fed delivered by a lower federal court last August. If the Circuit Court of Appeals declines to hear the case, the Fed could (and likely would) appeal to the U.S. Supreme Court. All the while that Fed officials have been stonewalling and hiding their documents and balance sheets, they also have been loudly proclaiming their steadfast support for “transparency” and “complete openness.”

It is not surprising that the Clearing House Association, which includes many of the big commercial banks that have figured so prominently in the Fed’s operations (and profited so handsomely from them), has filed a petition with the Court in favor of the Fed. Prominent members of the privileged CHA group include Citigroup, Deutsche Bank AG, HSBC Holdings, JPMorgan Chase & Co., US Bancorp, Wells Fargo & Co, Royal Bank of Scotland, Bank of America, and Bank of New York. They have obvious reasons for wanting to keep the details of the bailouts hushed up.

Ditto for Goldman Sachs, which has been at the center of virtually every financial debacle, including the Greek fiasco and the larger PIIGS crisis. It was Goldman Sachs — with its top-echelon people always in key positions at the Fed and Treasury — that crafted the complex shell game of credit swaps for the Greek government that allowed Greece to hide its skyrocketing debt and borrow an additional billion euros. While it was marketing this debt to others, Goldman was going short on Greek debt, which was sure to be headed into default. So, as in the U.S. housing market crash, Goldman Sachs left others holding the pigless poke.

As economist and investment guru Marc Faber, publisher of the *Gloom Boom & Doom Report*, noted in a May 10 television interview with Bloomberg, the central bankers “are all money printers” and they will be using their money printing capabilities to debase our currencies, while bailing out their banking cronies.

“But, basically, central bankers — they’re going to print and print,” Faber told Bloomberg. “And it would be a mistake to think that the bailout is actually a bailout of Greece. Greece is a write-off. You can’t have the kind of debts Greece has with an olive oil income. They have no industries to speak of…. So, basically, the bailout is a bailout of the ECB itself, because they have already a lot of paper of Spain, Portugal and Greece in their portfolios, and a bailout of the banks in Europe.”

American taxpayers could end up on the hook for this bailout not only through the Fed’s secretive currency swap actions, but also through the funds chipped in by the IMF, where the United States is the biggest contributor.

On Monday, May 10, Rep. Ron Paul appeared on the FOX Business Network with Stuart Varney to explain how it is not only the U.S. taxpayer who will pay for the euro bailout, but every consumer, who will pay for it with increased prices, as the bailout further accelerates the devaluation of the dollar.

The following day, Tuesday, May 11, Dr. Paul addressed his colleagues in a five-minute speech from the floor of the House concerning the recently concluded votes in the Senate on the Sanders and Vitter amendments. In his speech, which was carried on C-SPAN, Rep. Paul described the Senate votes as very “disturbing,” especially since it is these off-the-record actions by the Fed and other central banks that are causing the very real currency crisis that is now “on our doorstep.” Rep. Paul stated:

> The reason this is so disturbing is because of the current events going on in the financial markets. We are right now involved in bailing out Europe and especially bailing out Greece, and we’re doing this through the Federal Reserve. The Federal Reserve does this with currency swaps and they do this literally by giving loans and guarantees to other central banks, and they can even give loans to governments. So this is placing the burden on American taxpayers — not by direct taxation, but by expanding the money supply this *is* a tax on the American people because this will bring economic hardship to this country. And because we’ve been doing this for so many years the economic hardship is already here [and] we’ve been suffering from it.

Counterfeit “Thin Air” Money

“But the problem comes that once you have a system of money where you can create it out of thin air there’s no restraint whatsoever on the spending in the Congress,” noted Rep. Paul. “And then the debt piles up and they get into debt problems as they are in Greece and other countries in Europe. And how do they want to bail them out? With more debt.”

Dr. Paul continued:

> But what is so outrageous is that the Federal Reserve can literally deal in *trillions* of dollars. They don’t get the money authorized, they don’t get the money appropriated, they just create it and they get involved in bailing out their friends, as they have been doing for the last two years, and now they’re doing it in Europe. So, my contention is that they deserve oversight. Actually they deserve to be reined in where they can’t do what they’re doing.

But, at the very least, he said, “we have to have some oversight.” Which is why he found the Senate vote to be so disturbing. Because it means, Dr. Paul said, that “only 37 senators [are] willing to audit the

Federal Reserve in a thorough manner and hold them in check." And the disturbing corollary, he noted, "means there are 62 senators who support the idea of maintaining status quo with the Fed, and they will still be able to make these loans to these foreign central banks."

Where has this path led us? Dr. Paul notes:

> It has led to tremendous pressure on the dollar. The dollar is the reserve currency of the world; we bail out all the banks and all the corporations. We've been doing it for the last couple years to the tune of trillions of dollars….

The real truth is that the dollar is very, very weak, because the only true measurement of the value of a currency is its relationship to gold…. In the last ten years, our dollar has been devalued 80 percent in terms of gold. That means, literally, that just means that we have printed way too much money, and right now we're just hanging on, the world is hanging on to the fact that the dollar is still usable.

Now, as a result, said Rep. Paul, "we face a very serious crisis." Unfortunately, he said, the Senate sellout in adopting the Sanders substitute amendment and rejecting the Vitter amendment made obtaining a genuine audit much more difficult. However, he was still hopeful that, with sufficient citizen pressure, things might be salvaged in conference with adoption of his House-passed version of the audit. He made it clear that Congress has a constitutional *obligation* to address this matter responsibly, stating:

> But since the Federal Reserve is responsible for the business cycle and the inflation and for all the problems we have it is *vital* that we stand up and say, you know, its time for us to assume the responsibility because it is the Congress under the Constitution that has been authorized to be responsible for the value of the currency. As a matter of fact, the Constitution still says — it has not been amended, has not been changed — that only gold and silver are supposed to be used as legal tender, *not* pieces of paper, not computer entries. This can't work … the world is starting to recognize this. And I am really concerned about what is going to happen because a currency crisis is much worse than a financial crisis. We've just been through the financial crisis, we're in the midst of it, but a currency crisis, which is on our doorstep, means our dollar will be challenged.

Rep. Paul mentioned that when he questioned Fed chief Bernanke in a recent hearing, Bernanke said definitely that the Fed would *not* bail out Greece. Was Bernanke clueless about the euro bailout he was about to initiate, or was he lying to Congress? Most likely the latter.

Of course, Fed officials regularly lie, equivocate, evade, and dissemble during congressional hearings. Former Fed chief Alan Greenspan brazenly and proudly refers to this deception as "purposeful obfuscation" and "destructive syntax." And the lap dogs of the kept media go along with the lying and evasion, admiringly referring to it as "Greenspeak" and "Fedspeak" instead of exposing it for the criminal deception that it is.

Current Fed chief Bernanke and former Fed chief Paul Volcker were among the heavyweight lobbyists that put last-minute pressure on Sanders, sending letters to Sen. Chris Dodd on May 6 warning that the kind of audit called for by Ron Paul would destroy the "independence" of the Fed. In a video message to his supporters in May, late in the evening after the Senate vote, an understandably disappointed Ron Paul said that the Fed "got to" San-ders and his colleagues.

"I'm not a bit surprised that the Federal Reserve got to the Senate," Ron Paul said. "I had expected Bernie Sanders to offer S. 604, which was the same as H.R. 1207, which is the Audit the Fed Bill, and at the last minute he switched it and watered it down, and really, it adds nothing. There's a possibility that it even makes the current conditions worse."

On his Facebook page, Rep. Paul was even stronger in his criticism of Sanders. "Bernie Sanders has sold out and sided with [Sen.] Chris Dodd to gut Audit the Fed in the Senate," he wrote. "His 'compromise' is what the administration and banking interests want."

In a Monday, May 10 statement entitled "Fed Audit Under Fire," posted on his weekly "Texas Straight Talk" column, Rep. Paul stated:

> It doesn't come as too much of a surprise that the measure to audit the Federal Reserve is coming under continuous fire from the central bank and its cronies. For the first time since the Federal Reserve was created nearly a century ago, they have hired an actual lobbyist to pound the pavement on Capitol Hill. This is a desperate effort to hang on to the privilege of secrecy and lack of accountability they have enjoyed for so long. Last week showed they are getting their money's worth in the Senate.

Dr. Paul noted that while the Sanders amendment "is better than no audit at all, it guts the spirit of a truly meaningful audit of the most crucial transactions of the Fed. In fact, rather than still calling the Sanders Amendment an audit, maybe it should instead be called more of a disclosure at this point."

Ron Paul further stated:

> Taxpayers are sick and tired of bailing out privileged, dysfunctional institutions that should be allowed to fail in order to stop their ability to wreak havoc on our economy. Perpetuating these corporations at taxpayer expense is not just wasteful, it is actively harmful. It would be good to know what went on in the past, but what about accountability in the future? A one-time disclosure now will not do us a lot of good down the road when the cycle repeats itself and friends of the Fed find themselves in trouble again.

"If we cannot take away the Fed's ability to waste trillions of taxpayer dollars on failing companies and failing countries," said Rep. Paul, "at the very least, we can take away their ability to do this with no transparency or accountability to the American people."

Is that such an outrageous, unreasonable, or radical proposal?