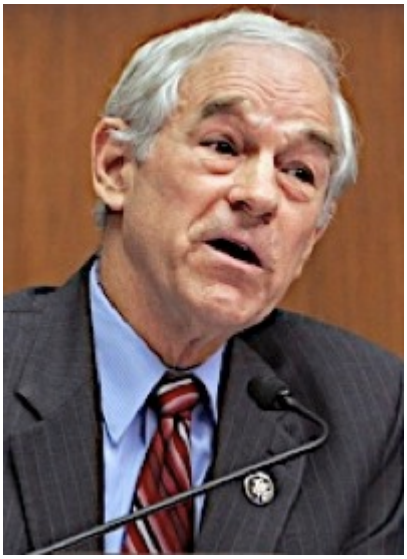
Fed Denies Link to Watergate, Iraq's Saddam Hussein



The establishment press promptly celebrated the findings — inaccurately characterizing the privately owned U.S. central banking system as a government "agency" — while largely omitting the well-documented evidence of widespread malfeasance by the government-backed monetary cartel. Several mainstream media outlets even used the investigation to attack the escalating suspicion and anger about the Fed, its multi-trillion dollar bailouts to entities around the world, its manipulation of markets, and its notorious secrecy.

During a 2010 hearing of the House Financial Services Committee, longtime central bank critic Congressman Ron Paul (above left) — citing reports and past investigations — questioned Fed Chairman Ben Bernanke about the Watergate and Iraq concerns. "Would you grant that the American people deserve to know whether the Federal Reserve has been involved with this and what kind of shenanigans they're involved with?" he asked.

At the time, Bernanke called the accusations "absolutely bizarre," claiming he had "absolutely no knowledge of anything remotely like what you just described." Experts, however, were not buying it. Immediately following the hearing, University of Texas Professor Robert D. Auerbach of the LBJ School of Public Affairs — who assisted in congressional investigations of Fed corruption, abuse, and deception; and later wrote a book about it — sent Congress a letter that was entered into the record.

"I thank Congressman Ron Paul for bringing to the public's attention the Federal Reserve coverup of the source of the Watergate burglars' source of funding and the defective audit by the Federal Reserve of the bank that transferred $5.5 billion from the U.S. government to Saddam Hussein in the 1980s," Prof. Auerbach wrote, noting that the Fed had already voted to destroy some evidence. "The evidence Congressman Ron Paul mentioned is well documented in my recent book, 'Deception and Abuse at the Fed.' The head of the Federal Reserve bureaucracy should become familiar with its dismal practices."

Then-Financial Services Committee Chairman Barney Frank (D-Mass.) was apparently not convinced either. He eventually sent a follow-up letter to Bernanke asking the Fed to look into the allegations.

At Rep. Frank's request, the central bank's "independent" Inspector General conducted a 16-month inquiry. Using documents and records from the Fed, the FBI, some of the privately owned regional Fed banks, congressional investigations, and more, the central bank looked into the allegations. Much of the probe also involved interviewing the same Fed officials alleged to have been involved in the improprieties.

Close to the end of the investigation, the Fed finally got around to contacting Prof. Auerbach, offering him a week to prepare his response. The Professor, however, was openly suspicious of the investigation — especially because of his past dealings with central bank officials.

"Although I am pleased to bring the material in my book to the attention of personnel in the Inspector

General's office, I have serious doubts about an unbiased investigation of Fed officials," he responded, again informing investigators that the evidence was outlined in his book. "My doubts are based on my experience with the Inspector General while I was assisting in congressional oversight of Federal Reserve operations."

On top of that, Auerbach explained in his response, there is "a huge conflict of interest" in the fact that the Inspector General is internally appointed. Also inappropriate and discouraging, the respected Professor noted, is a Fed "rule" allowing the central bank Chairman to stop any audit or investigation if he determines that "sensitive information is involved."

The Fed finally released its 34-page report in March. And just as skeptics suggested would happen, the internal investigation did not turn up evidence of significant malfeasance. "We did not find any evidence of undue political interference with Federal Reserve officials related to the 1972 Watergate burglary or Iraq weapons purchases during the 1980s," wrote Fed Inspector General Mark Bialek in a letter included with the report.

Regarding the fact that many of the 44 new $100 bills found on the Watergate burglars had sequentially ordered serial numbers, the report claimed the Federal Reserve Banks of Atlanta and Philadelphia had distributed those bills to commercial banks, which in turn handed them out to the public. "We did not find any evidence of undue political interference or that the Federal Reserve provided the new $100 bills directly to the burglars," the investigation concluded.

The allegations of a subsequent coverup and Fed efforts to "stonewall" congressional investigations — accusations made by prominent lawmakers at the time — were also not to be taken seriously, according to the Inspector General. The report claimed central bank officials were simply following orders from the disgraced Nixon administration to conceal the facts from Congress.

"The documentation we reviewed indicated that the Board's decision not to provide information requested by congressional members and staff was consistent with the U.S. Attorney's Office for the District of Columbia advising the Board to not disclose the information because such disclosure may impede the investigation and jeopardize the subsequent prosecution," the report found.

In a 1972 letter to the Fed boss at the time, U.S. Sen. William Proxmire (D-Wis.), who was investigating the central bank's link to Watergate, essentially accused Fed officials of lying. "I now find that the U.S. Attorney did not ask in any formal way that you withhold the information from me," he wrote. The Fed report, citing internal "staff accounts," concluded that the U.S. Attorney actually did tell the Fed not to obey Congress.

Still, analysts did not find the Fed claims entirely credible. "This finding is actually a little suspect, given that Nixon's revolving Attorneys General were at the center of the Watergate scandal," observed Grace Wyler in a piece for *Business Insider*. "Although he was never charged with anything, [then-Attorney General Richard] Kleindienst was intimately involved in the Watergate coverup and resigned amid the scandal. So while there may not have been any inappropriate political interference between the AG and the Fed, it is tough to accept the claim without more evidence."

The other set of accusations addressed in the Fed report surround central bank involvement in the extension of a $5.5 billion loan to former Iraqi strongman Saddam Hussein that was used to buy weapons. An American branch of the Italian bank Banca Nazionale del Lavoro — which was supposed to be supervised by state officials and the Fed — was caught extending the loans in question to Iraq under a U.S. government program. The central bank was also participating in the federal credit scheme,

technically in an “advisory” capacity.

According to the Fed’s investigation, however, central bank officials were not to blame — they were simply misled by the commercial bank’s employees, who were supposedly concealing the government-backed loans from authorities. Lawmakers were stunned. But the state regulators and Fed employees involved with the bank were interviewed by the Inspector General. Apparently, they all claimed that they did not experience “undue political interference.” Congress responded to the scandal at the time by giving the Fed more power.

Of course, more recently, as part of the trillions it was showering on foreign banks during the financial crisis, the Fed was caught bailing out Arab Banking Corp. That bank was largely owned by the regime of the late Libyan tyrant Muammar Gadhafi at the time.

During the same 2010 hearing with Bernanke that sparked the investigation on Iraq and Watergate, Rep. Paul also asked if the Fed had the power to purchase foreign debt and bailout foreign countries. Bernanke reluctantly agreed that it did, but he denied that those powers would be used.

“Yes, that’s true, but we have no plans whatsoever to be involved in any foreign bailouts or anything of that sort,” he claimed. That later turned out to be completely and entirely false, as shown by the Fed’s own documents.

Much of the so-called “mainstream media” celebrated the recent Fed report, absurdly claiming that Rep. Ron Paul’s “conspiracy theories” had been “debunked.” Of course, nothing of the sort actually happened – Paul critics simply seized on questionable answers to two minor questions among many that he asked during the hearing. Questions based on extensive research by experts and numerous reports hardly constitute “theories.”

Dr. Paul’s office, meanwhile, was still not entirely convinced by the Inspector General report, either. "Prof. Auerbach has indicated that he is not at all surprised that an inspector general appointed by the chairman of the Federal Reserve would fail to find any evidence of wrongdoing on the part of his bosses, and in fact, would omit or overlook key pieces of evidence in his investigation," Paul's communications director Rachel Mills said in a statement.

Photo of Ron Paul: AP Images

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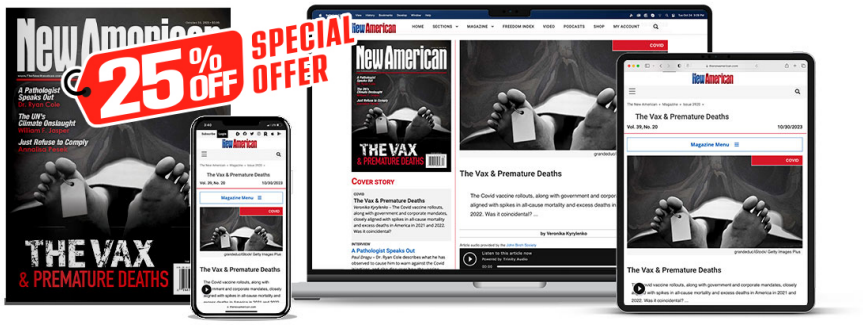

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