

IMPEACH BERNANKE!

An open letter to Congressman Ron Paul of Texas

Antal E. Fekete

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Dear Dr. Paul:

There are serious questions about the legality of Quantitative Easing. You are among the few who are well-qualified and well-placed to get to the bottom of it.

Most people believe, and the media confirm them in that belief, that the Fed can legally create dollars ‘out of the thin air’ in any quantity, and can do with them as it pleases. This may well be the pipe dream of Dr. Bernanke who is quoted as saying that the U.S. government has given the Fed a tool, the printing press, to stop deflation — but it hardly corresponds to the truth. The Fed can create new dollars only if some stringent legal conditions are satisfied, and then, it can only dispose of them in certain ways prescribed by law.

Contrary to a statement of Dr. Bernanke, made before he became the Chairman of the Board of Governors of the Fed, he could not drop freshly printed dollars from a helicopter, no matter how many reasons for such an action he may be able to cite. Another thing the Fed is not allowed to do legally is to purchase Treasury paper from the U.S. Treasury *directly*. It must be purchased *indirectly* through open market operations. If you don’t put the Treasury paper through the test of the open market before the Fed is allowed to buy it, the presumption is that the market would reject it as worthless, or would take it only at a deep discount. The law does not allow the F.R. banks to purchase Treasury paper directly from the Treasury because that would make money creation through the F.R. banks a charade, reserve requirements a farce, and the dollar a sham.

If that were the only problem with Quantitative Easing, it would be bad enough. But there is something else that is even more ominous. The fact is that the Federal Reserve banks can purchase Treasury paper only if they pay with F.R. credit that has been *legally created*.

F.R. credit (F.R. notes and F.R. deposits) is legally created if it has been issued in accordance with the law. The law says that F.R. credit must be backed by collateral security *at the time of issuance*, usually in the form of an equivalent amount of U.S. Treasury paper. The procedure is as follows.

The F.R. bank seeking to expand credit takes its Treasury paper, *owned outright and free from encumbrances*, and posts it as collateral with the Federal Reserve agent who will then authorize the issuing of credit. In other words, if the F.R. banks do not have the unencumbered Treasury paper in their possession, then they cannot create additional credit legally.

There is some evidence that the F.R. banks do not have F.R. credit available to make the kind of purchases Dr. Bernanke is talking about as part of his Quantitative Easing. Nor do they have unencumbered Treasury paper in sufficient quantity that they could post with the F.R. agent for authorizing the issue of additional F.R. credit.

The point is that the process of posting collateral first, and augmenting F.R. credit afterwards *must under no circumstances* be reversed. What the F.R. banks cannot legally do is to buy the Treasury paper first with unauthorized F.R. credit, post the paper as collateral, and justify the illegal issuance of credit *retroactively*. Nor can they borrow the bond from the Treasury, post it as collateral, and pay for the bond *retroactively*.

This is an important limitation separating the regime of market-based irredeemable currency from the regime of fiat money involving outright monetization of government debt — the graveyard where the Continental dollar, the *assignat*, the *mandat*, the Reichsmark, and the Zimbabwe dollar (among countless others) rest.

At any rate, retroactive authorization of F.R. credit, if that's what the Fed is up to, would be a violation of both the letter and spirit of the F.R. Act. It would mean converting the dollar into outright fiat money through the back door, bypassing Congress. It would show *absolute bad faith on the part of the Chairman of the Federal Reserve Board of Governors, Dr. Ben Bernanke, who certainly knows what the law is. Such a blatant violation of the law would make him totally unfit for the powerful office he occupies. It would call for his immediate and dishonorable discharge by the President, pending Congressional investigation of the matter.*

The various violations of the law of which the Fed is accused point to a concerted effort to remove the shackles the law has put on the money spigots

lest crooks help themselves to the public purse. These violations are not isolated incidents. They are aiming at the corruption of the monetary order of the nation and the world. Moreover, they would ultimately figure prominently among the causes of the financial instability the world has been suffering from since 1971 and, more recently, since 2008.

Without understanding this fundamental truth, all talk about stabilizing the monetary system and reining in the runaway budget deficit is an exercise in futility.

Yours very sincerely,

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Note: an identical letter has been sent to Congressman Mike Pence of Indiana.