The Federal Reserve's Transcripts: The Greatest Propaganda Coup of Our Time?

The New York Times and the Fed's Transcripts

By Mike Whitney
Global Research, February 28, 2014
Counterpunch

Region: USA
Theme: Global Economy

There's good propaganda and bad propaganda. Bad propaganda is generally crude, amateurish Judy Miller "mobile weapons lab-type" nonsense that figures that people are so stupid they'll believe anything that appears in "the paper of record." Good propaganda, on the other hand, uses factual, sometimes documented material in a coordinated campaign with the other major media to cobble-together a narrative that is credible, but false.

The so called Fed's transcripts, which were released last week, fall into the latter category. The transcripts (1,865 pages) reveal the details of 14 emergency meetings of the Federal Open Market Committee (FOMC) in 2008, when the financial crisis was at its peak and the Fed braintrust was deliberating on how best to prevent a full-blown meltdown. But while the conversations between the members are accurately recorded, they don't tell the gist of the story or provide the context that's needed to grasp the bigger picture. Instead, they're used to portray the members of the Fed as affable, well-meaning bunglers who did the best they could in 'very trying circumstances'. While this is effective propaganda, it's basically a lie, mainly because it diverts attention from the Fed's role in crashing the financial system, preventing the remedies that were needed from being implemented (nationalizing the giant Wall Street banks), and coercing Congress into approving gigantic, economy-killing bailouts which shifted trillions of dollars to insolvent financial institutions that should have been euthanized.

What I'm saying is that the Fed's transcripts are, perhaps, the greatest propaganda coup of our time. They take advantage of the fact that people simply forget a lot of what happened during the crisis and, as a result, absolve the Fed of any accountability for what is likely the crime of the century. It's an accomplishment that PR-pioneer Edward Bernays would have applauded. After all, it was Bernays who argued that the sheeple need to be constantly bamboozled to keep them in line. Here's a clip from his magnum opus "Propaganda":

> "The conscious and intelligent manipulation of the organized habits and opinions of the masses is an important element in democratic society. Those who manipulate this unseen mechanism of society constitute an invisible government which is the true ruling power of our country."

Sound familiar? My guess is that Bernays' maxim probably features prominently in editors offices across the country where "manufacturing consent" is Job 1 and where no story so trivial that it can't be spun in a way that serves the financial interests of the MSM's constituents. (Should I say "clients"?) The Fed's transcripts are just a particularly egregious example. Just look at the coverage in the New York Times and judge for yourself. Here's an excerpt from an article titled "Fed Misread Crisis in 2008, Records Show":

> "The hundreds of pages of transcripts, based on recordings made at the time, reveal the ignorance of Fed officials about economic conditions during the climactic months of the financial crisis. Officials repeatedly fretted about overstimulating the economy, only to realize time and again that they needed to redouble efforts to contain the crisis." ("Fed Misread Crisis in 2008, Records Show", New York Times)

This quote is so misleading on so many levels it's hard to know where to begin.

First of all, the New York Times is the ideological wellspring of elite propaganda in the US. They set the tone and the others follow. That's the way the system works. So it always pays to go to the source and try to figure out what really lies behind the words, that is, the motive behind the smokescreen of half-truths, distortions, and lies. How is the Times trying to bend perceptions and steer the public in their corporate-friendly direction, that's the question. In this case, the Times wants its readers to believe that the Fed members "misread the crisis"; that they were 'behind the curve' and stressed-out, but–dad-gum-it–they were trying their level-best to make things work out for everybody.

How believable is that? Not very believable at all.

Keep in mind, the crisis had been going on for a full year before the discussions in these transcripts took place, so it's not like the members were plopped in a room the day before Lehman blew up and had to decide what to do. No. They had plenty of time to figure out the lay of the land, get their bearings and do what was in the best interests of the country. Here's more from the Times:

> "My initial takeaway from these voluminous transcripts is that they paint a disturbing picture of a central bank that was in the dark about each looming disaster throughout 2008. That meant that the nation's top bank regulators were unprepared to deal with the consequences of each new event."

Have you ever read such nonsense in your life? Of course, the Fed knew what was going on. How could they NOT know? Their buddies on Wall Street were taking it in the stern sheets every time their dingy asset pile was downgraded which was every damn day. It was costing them a bundle which means they were probably on the phone 24-7 to (Treasury Secretary) Henry Paulson whining for help. "You gotta give us a hand here, Hank. The whole Street is going toes-up. Please."

Here's more from the NYT:

> "Some Fed officials have argued that the Fed was blind in 2008 because it relied, like everyone else, on a standard set of economic indicators. As late as August 2008, "there were no clear signs that many financial firms were about to fail catastrophically," Mr. Bullard said in a November presentation in Arkansas that the St. Louis Fed recirculated on Friday. "There was a reasonable case that the U.S. could continue to 'muddle through.' ("Fed Misread Crisis in 2008, Records Show", New York Times)

There's that same refrain again, "Blind", "In the dark", "Behind the curve", "Misread the crisis".

Notice how the Times only invokes terminology that implies the Fed is blameless. But it's all baloney. Everyone knew what was going on. Check out this excerpt from a post by Nouriel Roubini that was written nearly a full year before Lehman failed:

> "The United States has now effectively entered into a serious and painful recession. The debate is not anymore on whether the economy will experience a soft landing or a hard landing; it is rather on how hard the hard landing recession will be. The factors that make the recession inevitable include the nation's worst-ever housing recession, which is still getting worse; a severe liquidity and credit crunch in financial markets that is getting worse than when it started last summer; high oil and gasoline prices; falling capital spending by the corporate sector; a slackening labor market where few jobs are being created and the unemployment rate is sharply up; and shopped-out, savings-less and debt-burdened American consumers who — thanks to falling home prices — can no longer use their homes as ATM machines to allow them to spend more than their income. As private consumption in the US is over 70% of GDP the US consumer now retrenching and cutting spending ensures that a recession is now underway.
>
> On top of this recession there are now serious risks of a systemic financial crisis in the US as the financial losses are spreading from subprime to near prime and prime mortgages, consumer debt (credit cards, auto loans, student loans), commercial real estate loans, leveraged loans and postponed/restructured/canceled LBO and, soon enough, sharply rising default rates on corporate bonds that will lead to a second round of large losses in credit default swaps. The total of all of these financial losses could be above $1 trillion thus triggering a massive credit crunch and a systemic financial sector crisis." (Nouriel Roubini Global EconoMonitor)

Roubini didn't have some secret source for data that wasn't available to the Fed. The financial system was collapsing and it had been collapsing for a full year. Everyone who followed the markets knew it. Hell, the Fed had already opened its Discount Window and the Term Auction Facility (TAF) in 2007 to prop up the ailing banks–something they'd never done before– so they certainly knew the system was cratering. So, why's the Times prattling this silly fairytale that "the Fed was in the dark" in 2008?

I'll tell you why: It's because this whole transcript business is a big, freaking whitewash to absolve the shysters at the Fed of any legal accountability, that's why. That's why they're stitching together this comical fable that the Fed was simply an innocent victim of circumstances beyond its control. And that's why they want to focus attention on the members of the FOMC quibbling over meaningless technicalities –like non-existent inflation or interest rates–so people think they're just kind-hearted buffoons who bumbled-along as best as they could. It's all designed to deflect blame.

Don't get me wrong; I'm not saying these conversations didn't happen. They did, at least I think they did. I just think that the revisionist media is being employed to spin the facts in a way that minimizes the culpability of the central bank in its dodgy, collaborationist engineering of the bailouts. (You don't hear the Times talking about Hank Paulson's 50 or 60 phone calls to G-Sax headquarters in the week before Lehman kicked the bucket, do you? But, that's where a real reporter would look for the truth.)

The purpose of the NYT article is to create plausible deniability for the perpetrators of the biggest ripoff in world history, a ripoff which continues to this very day since the same policies are in place, the same thieving fraudsters are being protected from prosecution, and the same boundless chasm of private debt is being concealed through accounting flim-flam to prevent losses to the insatiable bondholders who have the country by the balls and who set policy on everything from capital requirements on complex derivatives to toppling democratically-elected governments in Ukraine. These are the big money guys behind the vacillating-hologram poseurs like Obama and Bernanke, who are nothing more than kowtowing sock puppets who jump whenever they're told. Here's more bunkum from the Gray Lady:

> "By early March, the Fed was moving to replace investors as a source of funding for Wall Street.
>
> Financial firms, particularly in the mortgage business, were beginning to fail because they could not borrow money. Investors had lost confidence in their ability to predict which loans would be repaid. Countrywide Financial, the nation's largest mortgage lender, sold itself for a relative pittance to Bank of America. Bear Stearns, one of the largest packagers and sellers of mortgage-backed securities, was teetering toward collapse.
>
> On March 7, the Fed offered companies up to $200 billion in funding. Three days later, Mr. Bernanke secured the Fed policy-making committee's approval to double that amount to $400 billion, telling his colleagues, "We live in a very special time."
>
> Finally, on March 16, the Fed effectively removed any limit on Wall Street funding even as it arranged the Bear Stearns rescue." ("Fed Misread Crisis in 2008, Records Show", New York Times)

This part deserves a little more explanation. The author says "the Fed was moving to replace investors as a source of funding for Wall Street." Uh, yeah; because the whole flimsy house of cards came crashing down when investors figured out Wall Street was peddling toxic assets. So the money dried up. No one buys crap assets after they find out they're crap; it's a simple fact of life. The Times makes this sound like this was some kind of unavoidable natural disaster, like an earthquake or a tornado. It wasn't. It was a crime, a crime for which no one has been indicted or sent to prison. That might have been worth mentioning, don't you think?

More from the NYT: "…on March 16, the Fed effectively removed any limit on Wall Street funding even as it arranged the Bear Stearns rescue."

Yipee! Free money for all the crooks who blew up the financial system and plunged the economy into recession. The Fed assumed blatantly-illegal powers it was never provided under its charter and used them to reward the people who were responsible for the crash, namely, the Fed's moneybags constituents on Wall Street. It was a straightforward transfer of wealth to the Bank Mafia. Don't you think the author should have mentioned something about that, just for the sake of context, maybe?

Again, the Times wants us to believe that the men who made these extraordinary decisions were just ordinary guys like you and me trying to muddle through a rough patch doing the best they could.

Right. I mean, c'mon, this is some pretty impressive propaganda, don't you think? It takes a real talent to come up with this stuff, which is why most of these NYT guys probably got their sheepskin at Harvard or Yale, the establishment's petri-dish for serial liars.

By September 2008, Bernanke and Paulson knew the game was over. The crisis had been raging for more than a year and the nation's biggest banks were broke. (Bernanke even admitted as much in testimony before the Financial Crisis Inquiry Commission in 2011 when he said "only one ….out of maybe the 13 of the most important financial institutions in the United States…was not at serious risk of failure within a period of a week or two." He knew the banks were busted, and so did Paulson.) Their only chance to save their buddies was a Hail Mary pass in the form of Lehman Brothers. In other words, they had to create a "Financial 9-11″, a big enough crisis to blackmail congress into $700 no-strings-attached bailout called the TARP. And it worked too. They pushed Lehman to its death, scared the bejesus out of congress, and walked away with 700 billion smackers for their shifty gangster friends on Wall Street. Chalk up one for Hank and Bennie.

The only good thing to emerge from the Fed's transcripts is that it proves that the people who've been saying all along that Lehman was deliberately snuffed-out in order to swindle money out of congress were right. Here's how economist Dean Baker summed it up the other day on his blog:

> "Gretchen Morgensen (NYT financial reporter) picks up an important point in the Fed transcripts from 2008. The discussion around the decision to allow Lehman to go bankrupt makes it very clear that it was a decision. In other words the Fed did not rescue Lehman because it chose not to.
>
> This is important because the key regulators involved in this decision, Ben Bernanke, Hank Paulson, and Timothy Geithner, have been allowed to rewrite history and claim that they didn't rescue Lehman because they lacked the legal authority to rescue it. This is transparent tripe, which should be evident to any knowledgeable observer." ("The Decision to Let Lehman Fail", Dean Baker, CEPR)

Here's the quote from Morgenson's piece to which Baker is alluding:

> "In public statements since that time, the Fed has maintained that the government didn't have the tools to save Lehman. These documents appear to tell a different story. Some comments made at the Sept. 16 meeting, directly after Lehman filed for bankruptcy, indicate that letting Lehman fail was more of a policy decision than a passive one." ("A New Light on Regulators in the Dark", Gretchen Morgenson, New York Times)

Ah ha! So it was a planned demolition after all. At least that's settled.

Here's something else you'll want to know: It was always within Bernanke's power to stop the bank run and end to the panic, but if he relieved the pressure in the markets too soon (he figured), then Congress wouldn't cave in to his demands and approve the TARP. Because, at the time, a solid majority of Republicans and Democrats in congress were adamantly opposed to the TARP and even voted it down on the first ballot. Here's a clip from a speech by, Rep Dennis Kucinich (D-Ohio) in September 2008 which sums up the grassroots opposition to the bailouts:

> "The $700 bailout bill is being driven by fear not fact. This is too much money, in too short of time, going to too few people, while too many questions remain unanswered. Why aren't we having hearings…Why aren't we considering any other alternatives other than giving $700 billion to Wall Street? Why aren't we passing new laws to stop the speculation which triggered this? Why aren't we putting up new regulatory structures to protect the investors? Why aren't we directly helping homeowners with their debt burdens? Why aren't we helping American families faced with bankruptcy? Isn't time for fundamental change to our debt-based monetary system so we can free ourselves from the manipulation of the Federal Reserve and the banks? Is this the US Congress or the Board of Directors of Goldman Sachs?"

But despite overwhelming public resistance, the TARP was pushed through and Wall Street prevailed. mainly by sabotaging the democratic process the way they always do when it doesn't suit their objectives.)

Of course, as we said earlier, Bernanke never really needed the money from TARP to stop the panic anyway. (Not one penny of the $700 bil was used to shore up the money markets or commercial paper markets where the bank run took place.) All Bernanke needed to do was to provide backstops for those two markets and, Voila, the problem was solved. Here's Dean Baker with the details:

> "Bernanke deliberately misled Congress to help pass the Troubled Asset Relief Program (TARP). He told them that the commercial paper market was shutting down, raising the prospect that most of corporate America would be unable to get the short-term credit needed to meet its payroll and pay other bills. Bernanke neglected to mention that he could singlehandedly keep the commercial paper market operating by setting up a special Fed lending facility for this purpose. He announced the establishment of a lending facility to buy commercial paper the weekend after Congress approved TARP." ("Ben Bernanke; Wall Street's Servant", Dean Baker, Guardian)

So, there you have it. The American people were fleeced in broad daylight by the same dissembling cutthroats the NYT is now trying to characterize as well-meaning bunglers who were just trying to save the country from another Great Depression.

I could be wrong, but I think we've reached Peak Propaganda on this one.

(Note: By "good" propaganda, I mean "effective" propaganda. From an ethical point of view, propaganda can never be good because its objective is to intentionally mislead people…..which is bad.)

Mike Whitney lives in Washington state. He is a contributor to Hopeless: Barack Obama and the Politics of Illusion (AK Press). Hopeless is also available in a Kindle edition. He can be reached at fergiewhitney@msn.com.

Become a Member of Global Research

Articles by: Mike Whitney