

The Federal Reserve and the Pathology of Power

by charles hugh smith via stan - of two minds blog *Saturday, Nov 20 2010, 5:35pm*

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The Federal Reserve is an example not just of run-of-the-mill hubris but of the far more profound Pathology of Power. The rule of law has been supplanted in the U.S. by self-serving propaganda campaigns serving State and financial Elites: this is the Pathology of Power. The Federal Reserve is an instructive example because it is so blatant.

Despite the dearth of evidence that goosing the stock market actually generates a "wealth effect" which "trickles down" from the top 10% who own the vast majority of equities to the bottom 90%, the Fed has waged a ceaseless propaganda campaign claiming this policy goal is now essential for the nation's well-being.

As Ben Bernanke recently made clear: "Higher stock prices will boost consumer wealth and help increase confidence, which can also spur spending (that) will lead to higher incomes and profits that, in a virtuous circle, will further support economic expansion."

No mention of its positive effect on Wall Street; cui bono (to whose benefit?) indeed. To better understand the pathology of power, we should turn first to Pathology Of Power by Norman Cousins, published in 1988.

Cousins was particularly concerned with the National Security State, a.k.a. the military-industrial complex, which at that point in U.S. history was engaged in a Cold War with the mighty Soviet Empire.

In a classic case of structural decay and destabilization (including failed coups), the Soviet Empire dissolved in December 1991. Nonetheless, Cousins' description of the pathology of power is an uncannily accurate account of the Fed and all the Central State fiefdoms.

"Connected to the tendency of power to corrupt are yet other tendencies that emerge from the pages of the historians:

1. The tendency of power to drive intelligence underground;
2. The tendency of power to become a theology, admitting no other gods before it;
3. The tendency of power to distort and damage the traditions and institutions it was designed to protect;
4. The tendency of power to create a language of its own, making other forms of communication incoherent and irrelevant;
5. The tendency of power to set the stage for its own use.

In broader terms, we might add: the tendency of power to manifest hubris, arrogance, bullying and the substitution of rule by Elites for rule of law.

Thus we have a Federal Reserve in which:

-- PhD economists declare that only PhD economists are qualified to critique Fed policy, even as the

Fed's grandiose failures suggest that PhD economists are the least qualified citizens to set economic policy (see items 1 & 2).

-- A Fed that bullies domestic and international critics and attempts to impose its "save American Financial Elites at all costs" goals on the rest of the planet.

-- A Fed that claims transparency in its balance sheets and actions would undermine its actions, meanwhile its actions have undermined democracy and the Republic by remaining secret and unaccountable.

-- A Fed that is a private bank acting as the central bank for the Republic, pursuing policies and manipulations which are not accountable to the public's elected representatives.

-- A Fed which defends its failures and responds to criticism with evocations of magical thinking ("step aside, little people, we are the Fed..." see item 3)

-- A Fed which has overstepped its mandate, which is limited to "maintaining monetary and credit aggregates commensurate with the economy's potential to increase production, so as to promote the goals of maximum employment, stable prices, and moderate long-term interest rates."

In other words, the Fed is supposed to manage the nation's supply of money and credit, not its economy or stock market. Yet that is precisely what the Fed is explicitly pursuing by goosing the stock market.

There are two fatal errors in this policy: one is a fundamental misunderstanding of capitalism, and the other is a misunderstanding of the stock market.

Capitalism operates on a "business cycle" in which expansion leads to increased credit, borrowing, investment and consumption, until credit-based speculation based on future growth extends beyond borrowers' ability to service debt. Investment become mal-investment, and the credit cycle reverses into contraction: credit shrinks as bad debt is written off and leveraged borrowers and lenders go bankrupt. Assets are written down and sold off for a fraction of their previous worth.

This squeezing out of excess credit and capacity sets up the solid foundation for the next cycle of expansion and investment.

After the deep 1981-82 recession, the Fed decided to revoke the painful part of the business cycle, and leave only the "happy part" of expanding credit, rising speculation and endless credit-fueled investment in new plant and buildings.

This is a catastrophic misunderstanding of Capitalism. Yet fully intoxicated with the pathology of power, the Fed has an institutional belief that it can revoke the business cycle by inflating serial assets bubbles.

This is hubris, ignorance and arrogance writ large.

The stock market is not a public-relations device, it is a transparent market where price is "found" and capital is raised. Yes, speculation is part of the game, but that is part of providing liquidity.

In constructing its Palace of Pathology, the Fed has extended its mandate to manipulating the stock market via injections of "free" cash, bidding up of futures contracts pre-market via proxies, and any

number of other manipulative techniques.

By gaming the stock market as a tool in its propaganda campaign to convince the American public and the world at large that U.S. equities are the leading indicator of the U.S. economy, the Fed has eroded trust in the market as an open market.

I addressed this in *The Loss of Trust and the Great Unraveling To Come* (October 18, 2010).

The reason, of course, is not to create the "virtuous cycle" Bernanke mentioned, but to protect the financial Power Elites which have the most to lose should reality and/or democracy wrest power away from the Federal Reserve.

Ultimately, the Fed's Pathology of Power is like any other psychopathology: self-absorbed, unable to differentiate between an inner world in which the Fed is all-powerful and reality, and obsessed with retaining and extending its powers, regardless of the cost to others.

Like all other sociopaths, the Fed's policy makers are unable to accurately discern others' emotions and intentions, instead ascribing them whatever motivations fit the inner world in which an all-powerful Fed "knows best."

Thus Congressional oversight of the Fed--a necessity if the word Democracy has any meaning left in America--is "meddling with the Gods" that will bring the nation to ruin. This psychological bullying, braggadocio and supreme arrogance also typifies a dangerously unstable, aggressive and unpredictable sociopathology.

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<http://www.oftwominds.com/blognov10/pathology-of-power11-10.html>

Cleaves Alternative News. <http://cleaves.lingama.net/news/story-2199.html>