



Written by [Thomas R. Eddlem](#) on September 30, 2011

## Herman Cain Denies Federal Reserve Flip-Flop, Economic Cluelessness

"I have never said that," Cain [wrote](#) in his book scheduled for release October 4, according to the *Daily Caller*. "I have said: 'I don't think you're going to find anything to audit on the Federal Reserve.' But they want you to believe that Herman Cain doesn't want the Federal Reserve to be audited."

Cain has indeed stated recently that he favors an audit of the Federal Reserve, the nation's central bank. But critics of Cain point out that the former chairman of the Kansas City branch of the Federal Reserve Bank told a radio audience less than a year ago that he opposed an audit. While guest-hosting the the Neil Boortz Show on December 29, 2010, Cain [said](#):



Some people say that we ought to audit the Federal Reserve. Here's what I do know. The Federal Reserve already has so many internal audits it's ridiculous. I don't know why people think we're going to learn this great amount of information by auditing the Federal Reserve.... Here's the advice I've given to people who are worried about an audit of the Federal Reserve. Call them up and ask them! You can stop by and have one of their P.R. people or one of their public relations people explain to you how the Federal Reserve operates. I think a lot of people are calling for this audit of the Federal Reserve because they don't know enough about it. There's no hidden secrets going on in the Federal Reserve to my knowledge. And I tell people, we've got 12 Federal Reserve Banks. Find out which district you are in, call them up and go from there. *We don't need to waste money with another commission or an audit.* That is not necessary because folks, we've got a lot of other problems we've got to worry about. [Emphasis added.]

Cain has flip-flopped on the audit issue, however, and he now favors an independent audit of the Fed. But Cain continues to say the Fed has no secrets. He told Glenn Beck in a May 24, 2011 [interview](#), "I do not object to auditing the Fed. I absolutely do not object to auditing the Fed.... Because I don't believe they are going to find anything, to be perfectly honest, based upon what I know about the Fed."

Of course, investigators have already discovered a burgeoning secret *multi-trillion dollar program* the Fed initiated in recent years. Former Congressman Alan Grayson (with Committee Chairman Barney Frank) jousts with Federal Reserve Bank Vice Chairman Donald Kohn in a January 13, 2009 hearing before the House Financial Services Committee over the Federal Reserve's \$1.2 trillion slush fund for banks:

**Alan Grayson:** Is it fair to say that when hundreds of billions of taxpayer's money are being spent the taxpayers have a right to know how?

**Donald Kohn:** Yes.



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**Grayson:** Mr. Kohn, how much has the balance sheet of the Federal Reserve increased since September 1?

**Kohn:** It's increased from around \$800 billion to about \$2 trillion.

**Grayson:** And what was that money spent on?

**Kohn:** That money was lent. It was lent to banks, investment banks. It was spent on lending through the commercial paper market and it was lent to foreign central banks that lent dollars to their banks to take pressure off the U.S. dollar market. So it wasn't spent, it was lent.

**Grayson:** Which institutions received that, and how much for each institution?

**Kohn:** I don't know which institutions — which specific institutions — received it, but by categories of institutions, that's captured in our balance sheet that we publish each week.

**Barney Frank:** But we would like that in writing, Mr. Kohn, for the hearing record.

**Kohn:** Okay.... I'm sorry, what in writing, Mr. Chairman?

**Frank:** The answer that you did not have right off the top of your head, to that question.

**Kohn:** But I think I would ... you're going to hold a hearing on this, Mr. Chairman, and I think I would be very, very hesitant to give the names of individual institutions. In fact, I think it would be a very bad idea, because I think it would undermine the utility of the facilities that we are giving. But I think we should say more about the categories of institutions.

**Grayson:** Mr. Kohn, you just said that \$1.2 trillion has been lent or spent, as the case may be, that's \$4,000 for every man, woman or child in this country. Don't Americans have a right to know how you spent that money?

**Kohn:** Uh, yes. They have every right to know the purposes for which we spent it, the types of spending, the types of lending that's going on. The types of collateral we are taking and what we expect to accomplish with that.

**Grayson:** All right. Well, specifically, I'd like to know how much was given to Credit Swisse, and what you got in return. How much was given to Citibank, and what you got in return? If you've put out \$50 billion to Credit Swisse, the taxpayers need to know that.

Kohn didn't tell Grayson, which was not surprising considering that Credit Swisse had been involved in promoting illegal tax evasion. The company was indicted by federal prosecutors in 2009 on charges related to helping clients break tax laws. The company avoided prosecution only by [paying a \\$780 million fine](#).

Citibank became the [single largest bank recipient](#) of federal bailout funds under the Federal government's TARP bailout program (a program which [Cain backed](#)), getting a \$45 billion direct investment and an additional \$306 billion asset guarantee from the federal government. But the TARP bailout was peanuts compared to the Federal Reserve's loans to Citigroup during the crisis years. [According to the General Accountability Office](#) (GAO), Citigroup received \$2.5 *trillion* in loans from the Fed (equivalent to over \$8,000 for every man, woman and child in America).

CNN [reported](#) in December 2010 — just weeks before Cain made the statement above on the Neil Boortz show — that the Fed had loaned out an astonishing \$9 trillion in taxpayer dollars to big banks: "The Federal Reserve made \$9 trillion in overnight loans to major banks and Wall Street firms during the financial crisis, according to newly revealed data released Wednesday."

But even though Cain told Boortz's radio audience there would be nothing to be gained from an independent audit and greater transparency from the Fed, the secret loan figures continued to increase. The actual loan amounts [according to the GAO](#) were almost double that amount, \$16 trillion, or more



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than the entire U.S. national wealth produced in a year (U.S. Gross Domestic Product in 2011 will not even top \$15 trillion). CNBC [noted](#) on July 22, 2011 that the federal GAO was not allowed to audit the Fed, and that the information only was released to the GAO after a lawsuit: "The GAO looked at data made public by the Fed in response to a court order."

That Cain did not know or seem to care much about the secret programs of the Federal Reserve Bank, a quasi-government agency in which he was once a high official, has led [some to question his economic credentials](#). Indeed, he had no idea about the looming housing and resulting financial crisis as late as April 21, 2008. Cain's [column](#) bearing that date reveals his general economic cluelessness, wherein he claimed that the Bush economic policy was a success: "An article in *U.S. News & World Report* dated Friday, April 18, 2008 reported that the current six-year economic expansion dates from November 2001 through the present time, despite some recent slowing. This was the same year George W. Bush took office as president, so how could these be failed economic policies?... So, how is this fiscally irresponsible and failed economic policy? It is not. Of course you can find some reports that downplay the economic expansion of the last six years, but they have to dig really deep to construct some irrelevant factual basis for their view."

Cain has long supported Federal Reserve policy and its bailouts. On October 20, 2008, just days before the 2008 elections, Cain wrote in a syndicated column that praised the efforts of both the Bush administration and the Federal Reserve to bail out Wall Street banks with taxpayer dollars. He [wrote](#):

Earth to taxpayers! Owning stocks in banks is not nationalization of the banking industry. It's trying to solve a problem.... These actions by the Treasury, the Federal Reserve Bank and the actions by the Federal Depositors Insurance Corporation (FDIC) are all intended to help solve an unprecedented financial crisis. Unlike steps taken prior to and during the Great Depression, these actions have a high probability of success. In order for these collective actions to work, the media needs to calm its crisis rhetoric, and Congress needs to just shut up with its political rhetoric.

By way of contrast, Rep. Ron Paul has criticized the Federal Reserve incessantly. Paul also suggested as early as September 6, 2001 that the Fed's suppression of interest rates caused an unusual investment in the real estate market. Paul [called it](#) an emerging "real estate bubble" at that time and noted then that "this too will burst, as all bubbles do." Paul issued [repeated warnings](#) about the real estate bubble throughout the years leading up to the collapse.

Representative Paul has been the [author](#) of the "[Federal Reserve Transparency Act of 2011](#)" (H.R. 459/S.202). An earlier version of the bill garnered co-sponsorship by every House Republican in 2010 as well as a third of House Democrats.

*Photo of Herman Cain: AP Images*



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