



Fed Would Be Shut Down If It Were Audited, Expert Says

FED, FEDERAL RESERVE, CENTRAL BANKS, JIM GRANT, GRANT'S INTEREST RATE OBSERVER, INTEREST RATES, FED FUND FUTURES
CNBC.com | 10 Jun 2009 | 09:55 AM ET

The Federal Reserve's balance sheet is so out of whack that the central bank would be shut down if subjected to a conventional audit, Jim Grant, editor of Grant's Interest Rate Observer, told CNBC.

With \$45 billion in capital and \$2.1 trillion in assets, the central bank would not withstand the scrutiny normally afforded other institutions, Grant said in a live interview.

"If the Fed examiners were set upon the Fed's own documents—unlabeled documents—to pass judgment on the Fed's capacity to survive the difficulties it faces in credit, it would shut this institution down," he said. "The Fed is undercapitalized in a way that Citicorp is undercapitalized."

Grant said he would support [legislation currently making its way through Congress calling for an audit of the Fed](#).

Moreover, he criticized the way the Fed has managed the financial crisis, saying the central bank's target rate should not be around zero.

"I think zero is the wrong rate for almost any economy," Grant said, adding the Fed has "embarked on a vast experiment in moral hazard. Interest rates are the traffic signals in a market economy, and everything's green. ... You have to wonder whether these interest rates are the right clearing rate or rather they are the imposition of a central bank."

Amid a disparity between analysts predicting there will be no rate hikes soon and the fed funds futures indicating tightening by the end of the year, Grant said he thinks the Fed indeed will begin raising rates as inflation creeps into the picture.

Fed funds futures have fully priced in as much as a half-point rise in the target rate from its current range of zero to 0.25 percent.

"If the hairs on the back of your neck stand up when there's too much unanimity of opinion, then one begins to worry about this," he said. "The Fed proverbially has been late."

© 2009 CNBC.com

URL: <http://www.cnbc.com/id/31204170/>

[Privacy Policy](#) . [Terms of Service](#)

© 2009 CNBC.com