Total Control

"Arthur Lieberman was an immensely popular man in the major financial circles. For years he was one of the top moneymakers on Wall Street, before turning to public service. Arthur called things as he saw them and he was usually right in his judgment. With a series of masterful maneuvers, he shook up the financial markets almost from the moment he became chairman. He showed them who was boss." Burns stopped to put another piece of wood on the fire. "In fact, he led the Fed in a way that I would like to think I would if every given the opportunity."

"Any idea who might succeed Lieberman?"

Burns shook his head. "No."

"Around the time he left for Los Angeles, had anything unusual occurred at the Fed?"

Burns shrugged, "We had our FOMC meeting on the fifteenth of November, but that was a regularly scheduled event."

Sawyer looked puzzled. "FOMC?"

"Federal Open Market Committee. It's our policymaking board."

"What goes on at those meetings?"

"Well, in a shorthand version, the seven members of the Board of Governors and the presidents of five of the twelve Federal Reserve Banks look at all pertinent financial data on the economy and decide whether any actions are required with respect to money supply and interest rates."

Sawyer nodded. "When the Fed raises or lowers interest rates, for instance, then that affects the entire economy. Contracts or expands it."

"At least we think so," Burns replied sardonically. "Although our actions have not always had the results we intended."

"So was there anything unusual at this FOMC meeting?"

"No."

"Nevertheless, could you give me a rundown of exactly what was said and by whom? It might seem irrelevant, but getting a motive could really help us track down whoever did this."

Burn's voice went up an octave. "Impossible. The actual deliberations of FOMC meetings are absolutely confidential and cannot be divulged to you or anyone else."

"Walter, I won't push it now, but with all due respect, if any information discussed at these meetings is relevant to the FBI's investigation, rest assured that we will have access to it." Sawyer stared at him until Burns dropped his gaze.

"A brief report detailing the minutes of the meeting is released six to eight weeks after the meeting is held," Burns said slowly, "but only after the occurrence of the next meeting. The actual results of the meetings, whether any action was taken or not, are released to the news media the same day."

"I read in the paper where the Fed left the interest rates the same."

"Burns pursed his lips and then eyed Sawyer." That's right, we didn't adjust the interest rates."

"How exactly do you adjust rates?"

"There are actually two interest rates that are directly affected by the Fed, Lee. The Federal Funds Rate is the interest rate banks charge other banks who borrow funds to meet reserve requirements. If that rate goes up or down, interest rates on bank CDs, T-bills, mortgages and commercial paper will soon follow. The Fed sets the target Federal Funds Rate at the FOMC meetings. Then the New York Federal Reserve Bank, through its Domestic Trading Desk, buys or sells government securities, which in turn restricts or expands the supply of money available to banks to ensure that the interest rate is maintained. We call that adding or subtracting liquidity. That's how Arthur took the bulls by the horns when he became chairman; by adjusting the Fed Funds Rate in ways the market didn't anticipate. The second interest rate which can be affected by the Fed is the Discount Rate, the rate charged by the Fed to banks for loans by the Fed. However, the Discount Rate is tied to loans for what amounts to emergency purposes; thus, it's known as the 'window of last resort.' Banks who frequent that window too often will come under increased regulatory scrutiny, since it's seen as a sign of weakness in banking circles. For that reason, most banks will borrow money form other banks at the slightly higher Federal Funds Rate, since there is no stigma attached to that channel of credit."

by: David Baldacci