



Ponzi, Madoff, and the Fed

Madoff, a former chairman of the NASDAQ stock exchange, was arrested on December 11 and charged with securities fraud involving, reportedly, \$50 billion. Ever since, media attention has focused on New York City's famous Lipstick Building in Midtown Manhattan, where Bernard L. Madoff Investment Securities, its most famous tenant, occupies the 17th, 18th, and 19th floors.



The eponymous Mr. Ponzi was an Italian con man who immigrated to the United States in 1903 and quickly got involved in one illegal scheme after another. The one that earned him lasting fame (or infamy) involved selling international postal reply coupons. He promised a phenomenal 50-percent return in as little as 45 days. And he delivered on the promises — for a time, that is. As news of the fabulous returns spread, new investors flooded in and Ponzi was able to amass a huge fortune and pay out magnificent profits from the new investors' funds. However, like all pyramid schemes, the obligations to pay out soon outstripped the income, and Ponzi's deception was exposed. Investors lost millions and Ponzi went to prison. Madoff may end up behind bars as well. If so, that may offer scant solace to the investors who were bilked of billions through his Ponzi-type scheme, and who will, most probably, never get back any of that money.

But Madoff is being unduly crowned "king" of the Ponzi schemers. He is an amateur by comparison to the real Ponzi artists, those who are getting bailed out by the government and the government officials themselves, who are dealing not in a few measly tens of billions of dollars (which once upon a time counted as "real money" in the scheme of things), but in *hundreds* of billions — and even scarier, *trillions*! The gargantuan \$700 billion bailout fund voted by Congress in October has already been spent and that is just the tip of the proverbial iceberg.

One of the biggest recipients of the bailout funds thus far has been Citigroup, who will gouge the taxpayers for much of its \$300 billion in toxic debt — with the blessings of the U.S. Treasury Department and Federal Reserve. The golden boys at Citi got into this mess with a giant Ponzi scheme selling unmarketable collateralized debt obligations (CDOs) — many associated with bad mortgage debt



Written by [William F. Jasper](#) on December 22, 2008

— that far eclipse Ponzi’s postal coupon “creative financing” racket. Former U.S. Treasury Secretary Robert Rubin, a senior counsel at Citigroup, is one of the company’s top management named in a lawsuit by investors alleging that Rubin, et al., sold more than \$150 million of their own shares at inflated prices while concealing the bank’s true financial health.

But even the massive Rubin-Citigroup Ponzi scheme is dwarfed by the larger scheme of which it is a part. We are referring to the Federal Reserve System itself, which, since its creation in 1913, has been leading the largest and longest-running Ponzi scheme in history. However, whereas Ponzi’s imitators in the private sector, such as Madoff, must rely on suckering private investors, the Ponzi artists at the Fed have a protected, government-conferred monopoly on issuing money and credit. They can (and do) spin fictitious funds out of thin air — on a scale Ponzi could have never imagined — but without having to worry about being prosecuted for fraud or counterfeiting.

As we have noted previously, the Federal Reserve and the Treasury are attempting to get away with the biggest heist in history. In addition to the \$700 billion voted by Congress, the Fed has admitted to authorizing at least another \$7 *trillion* for various bailout schemes and “loans” to banks, insurance companies, and other financial institutions. Members of Congress who have demanded to know where those funds are going and what collateral is being accepted by the Fed for these loans to troubled institutions have been told it’s none of their business. While blathering incessantly about providing increased transparency, the Treasury and the Fed have added additional layers of obfuscation to their already complex and murky dealings with a proliferating array of new credit windows, institutions, and instruments. Like Ponzi and Madoff, they are keeping observers mesmerized with their dizzying carnival shell game.

If Madoff and Citigroup had been properly audited, they could not have gotten away with their fraudulent activities for so long. The same goes for the Federal Reserve. For years, Rep. Ron Paul has been trying to force Congress to conduct an audit of the Federal Reserve System, a most basic responsibility that Congress has shirked. The courageous Dr. Paul, who is the most knowledgeable member of Congress on sound money and the Fed, has gone further, authoring legislation, H.R. 2755, to abolish the Fed. If your Congressman won’t support H.R. 2755, he should at the very least get behind efforts to force the Fed to open its books — before their multi-trillion-dollar Ponzi scheme destroys our economic system.

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