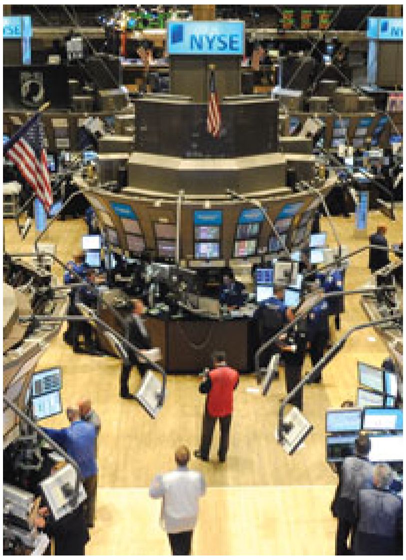
Fed Manipulations in the Crosshairs



Before the economic meltdown was in full swing, a Florida real-estate developer named William Pitts correctly read the signs pointing toward tough times ahead. In an effort to preserve some of his savings, he bought financial products that would increase in value as real-estate and banking collapsed. It seemed like the sensible thing to do. But though his analysis was correct, his investments went bust — because the U.S. Federal Reserve made them go bust.

Pitts told *The New American* that in early-to-mid 2008, he became aware that well-respected financial analysts who had evaluated the health of large banks and the real-estate market concluded they were in terrible shape. And it was true. Examining the publicly disclosed financial statements of the big financial institutions also revealed trouble on the horizon.

Based on that information, Pitts sold his stock in large financial firms like Citibank and Bank of America while taking a "short position," essentially betting that their value would go down. Along with countless others acting on the same information, he also purchased various exchange traded funds (ETFs) that would do well as real-estate's and the big banks' fates declined. And it would have been a smart move, Pitts recounted, "but then, a strange thing started happening": massive cash infusions and major purchases of equities and stocks in both financials and real-estate.

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It turns out that under the guise of "stabilizing" the economy, the Federal Reserve banking cartel had set in motion a series of actions that would eventually transfer trillions to the bankers at taxpayers' expense, all while decimating the investments of countless average Americans like Pitts. The Special Inspector General for the Troubled Asset Relief Program (SIGTARP) estimated the potential total cost of the combined crisis bailouts at $23.7 trillion, or more than $75,000 per person in the United States.

Redistributing the Wealth

Pitts explained some of the Fed's manipulations: "When we begin looking at this — and it's pretty common knowledge now — the central banks were loaning these large financial institutions huge sums of money at virtually zero percent interest.... So they're taking this huge amount of money that's being borrowed from the Fed, and really making money doing two things: one is all of the banks buying each others' stock and running up the value of it to increase their net worth on the books … and then they're also borrowing huge amounts of money from the Federal Reserve and buying U.S. Treasuries … which means guaranteed returns from the U.S. taxpayer." When the Fed gives new money to the banks and they buy Treasury Securities, they are basically earning free profits in the form of interest on those securities courtesy of American taxpayers, since the government will have to tax citizens to pay back the bonds plus the interest. Wealth redistribution, government style!

In addition to borrowing newly created money at almost no interest and purchasing treasuries to earn higher returns, the banks are also getting another massive but little-noticed central-bank subsidy: The Fed is actually paying banks interest to keep their money parked there, essentially giving the banks America's money and paying them not to lend it out. And that's just the beginning.

In mid-2009, Fed Chairman Ben Bernanke admitted to Congress that the Fed had distributed over $500 billion to 14 foreign central banks from 2007 to the end of 2008 — so-called "liquidity swaps." That money was then handed out to foreign financial institutions. And of course, none of this was disclosed to the public. These swaps aren't good for the little guy either. The Fed prints dollars and sends them to central banks around the world that request them in exchange for the other central bank's currency, then those foreign central banks loan out the dollars to banks in their area, supposedly to prevent a rise in the value of the dollar and rising interest rates. Flooding markets with dollars, of course, means that each dollar in existence buys less goods than it did before, causing price inflation. This blatant albeit sneaky theft hurts the poor and middle class to bail out the super rich. It also hurts investors who accurately read the market.

The Fed also acknowledged "emergency" lending totaling more than $2 trillion that it refuses to share details about, even after being ordered to do so by federal courts. On top of that, the central bank has "guaranteed" trillions more in loans, leading to more of the same: more inflation, more debt, and more market distortions.

Another stunning example of the Fed's blatant market manipulation came to light in April. Even before the congressionally approved "bankster bailouts" of 2008, the Federal Reserve Bank of New York (FRBNY) — owned by private banks and led at the time by tax dodger and current Treasury Secretary Timothy Geithner — "extended credit" to three limited liability companies it created.

The fake firms then began to intervene openly in the market to help certain favored firms. Incorporated in Delaware, the fake companies — Maiden Lane LLC, Maiden Lane II LLC, and Maiden Lane III LLC — used the Fed loans to purchase a variety of toxic assets from AIG and Bear Stearns, helping JP Morgan and Goldman Sachs, among others. These purchases included residential mortgage-backed securities, multi-sector collateralized debt obligations, and more. The New York Fed finally admitted to all of this on its website, justifying the measures by citing section 13(3) of the Federal Reserve Act, though this section of the act merely gives the Fed the authority "to discount for any individual, partnership, or corporation, notes, drafts, and bills of exchange" when there is "evidence that such individual, partnership, or corporation is unable to secure adequate credit accommodations from other banking institutions."

Through its front companies, the FRBNY now owns a vast portfolio of hotels, houses, and much more. In April of last year, news of this started to leak out when Reuters reported that the Fed was forced to foreclose on a practically vacant shopping mall it had acquired in Oklahoma City. Democratic Representative Alan Grayson of Florida also drew attention to the problem more recently with a detailed explanation to Congress on how the Fed ended up owning the liabilities of a debt-ridden national hotel chain called the Red Roof Inn.

Grayson explained, using displays with pictures of — appropriately enough — the board game Monopoly: "The Federal Reserve became the sucker of last resort [as the banks sought to unload their bad real-estate loans and other bad debt], and in doing so, the Federal Reserve made you — you America — the sucker of last resort."

"For all this time we've been hearing about socialism; communism; creeping government control of our economy … and it's been happening by stealth," he exclaimed during his 10-minute presentation, which was humorously ironic — since he's a Democrat and would normally be expected to be a proponent of socialistic programs — though the implications were frightening. "Before long, you will not only be owning hotel chains all around this country, but you'll be owning houses too. Maybe your neighbors' houses. Maybe your own houses…. Actually, what's happening is that, when these mortgages go bad, the Federal Reserve owns your home, and if you can't make the payments, the Federal Reserve becomes your landlord," he said, noting that the Fed had gobbled up a half trillion dollars of mortgage-backed securities. "Let's try to put this wild beast — that creates money out of nothing and jams it into the pockets of special interests like Maiden Lane, like Bear Stearns, like JP Morgan, like all their friends — let's put them under some degree of restraint before it all comes crashing down."

The mortgage-backed securities that the Fed took in hand are unlikely to be profitable for the government. In fact, they will likely cause tremendously more government debt in the future — causing price inflation and speeding the day of the insolvency of the U.S. dollar — or lead to higher tax burdens for Americans. Using available data, a Bloomberg analysis found that assets purchased by the Fed's front companies have lost over half of their value. Some of the "assets" were garbage from the start, despite Fed reassurances. Bernanke told Congress in April of 2008 that all of the Bear Stearns assets unloaded on the Fed (or more accurately, the American people) were "entirely investment grade." But that was a lie. "After a brief glance at a few bonds, we now know that's not true," noted the *Financial Times*.

Despite the hardships imposed on everyday Americans and the economy by the Fed's activities, its banking cohorts are doing great. In fact, most of the big financial institutions are reporting staggering profits. Goldman Sachs, for example, posted a profit every single day in the first quarter of 2010. Big banks reported over $15 billion in profits during the same period, according to the FDIC.

The blatant cronyism on the part of the Fed with elitist bankers has made knowledgeable Americans upset and desirous to take action. Pitts is taking actions of his own: He recently filed three felony criminal complaints with the Federal Bureau of Investigation and the Securities and Exchange Commission against the Fed, the Treasury, and various banks. "How can investors compete in the market against a company that can just create money — set up companies with unlimited money — and just start buying?" Pitts wondered, adding that he "absolutely" would have invested differently if the Fed's actions had been disclosed. "Investors who had short positions or purchased 'put options' were defrauded of billions. I purchased short positions and was defrauded. I want to prosecute," he wrote in the criminal complaint lodged with the SEC. "Those guilty by their own admission should be arrested. Those who lost because of this fraud should be compensated for their loss." Indeed, many of the accusations made in the complaints have already been admitted by the Fed itself in some form or another.

Pitts, who serves as chairman of the Republican Liberty Caucus of Florida, is also working on a class-action lawsuit to recover damages. "We're assembling persons who were impacted as a result of these fraudulent activities and have spoken with a number of attorneys," he told *The New American*. "For [the Fed] to take action in the market to increase the value of the stocks, they're directly defrauding everyone who's on the other side of that trade." And even if the central bank can successfully argue that it was not required to divulge the information, "those companies that had these material transactions all had an obligation to disclose these transactions that were occurring, and they didn't," Pitts alleged. In a sad twist of irony, not only did Pitts lose money because of the manipulations, but both he and his descendants will be expected to bankroll the actions that decimated his investment portfolio via higher taxes and higher prices, the latter caused by the Fed expansion of the money supply.

Some of the New York Fed's more egregious actions have also come under the scrutiny of Neil Barofsky, chief of the Office of the Special Inspector General for the Troubled Asset Relief Program. According to news reports, the notorious watchdog is investigating an alleged coverup and unwarranted secrecy by Geithner's FRBNY during its rescue of AIG. "We're either going to have criminal or civil charges against individuals or we're going to have a report," Barofsky recently told Bloomberg. "This is too important for us not to share our findings." He is also looking into possible insider trading involved in the TARP program, where certain bankers may have been tipped off about which institutions would be bailed out. "There was a time when, if you got that word the stock price would go up, and if you were to trade on that information prior to the public announcement, that would be classic insider trading," he said.

In an e-mail to *The New American*, the communications director for SIGTARP said she could not comment on investigations.

A significant bipartisan majority in the House of Representatives has also taken an interest in at least figuring out what has been going on behind the Fed's closed doors, and four out of five Americans want an audit, according to polls. Hundreds of non-profit groups and even the big labor unions have announced their support for transparency. Audit legislation sailed through the House of Representatives. But a thorough audit was upended in the Senate, when it recently approved a watered-down audit and voted against complete transparency. It appears likely, though, that at least some of the Fed's secret machinations may be revealed soon.

The American media have jumped on the bandwagon as well. Fox Business Network, for example, announced on April 20 that it was expanding its Freedom of Information Act lawsuit against the Fed's secret bailouts. Bloomberg won a similar case in federal court, but the Fed obtained permission to delay disclosure while it appealed the ruling, arguing that it was not subject to FOIA requests as a private corporation and that disclosure would "harm" the institutions receiving bailouts. The Fed lost again on appeal. But despite the two court rulings, the Fed continues to stonewall and may even take the case all the way to the U.S. Supreme Court.

The disclosure of the Fed's inner workings would shed needed light on the extent of Fed-induced distortions in real-estate, stocks, and bonds. But the manipulation doesn't end there. Available data indicates that the Fed is involved in another critical market, with actions just as serious, and equally secretive.

Manipulation of Gold ?and Other Precious Metals

Whistleblowers, and even some government officials, are now taking aim at "irregularities" in the precious-metals market being orchestrated by the banking cartel and its government allies.

An ex-Goldman Sachs employee and veteran metals trader in London shocked the world in April when he went public with startling allegations. "JPMorgan acts as an agent for the Federal Reserve; they act to halt the rise of gold and silver against the US dollar. JPMorgan is insulated from potential losses [on their short positions] by the Fed and/or the US taxpayer," Andrew Maguire told the *New York Post*.

After sharing information with government investigators and accurately predicting events in the metals market, Maguire was supposed to testify before the U.S. Commodity Futures Trading Commission (CFTC). However, a few days after his identity was revealed, Maguire and his wife were struck and injured by a car in a hit-and-run accident. Details about any investigations into the event have not been made public yet, sparking a tornado of conspiracy theories.

The CFTC did hold a hearing on precious-metals market manipulation nevertheless, which included other speakers with similarly powerful accusations, including the Gold Anti-Trust Action (GATA) Committee's Bill Murphy. He told *The New American* that GATA tried to find out what role the Fed was playing in the gold markets, but his FOIA request for information about the Fed's "gold-swap" agreements was denied. The organization then filed a lawsuit against the central bank in federal court. "[The Fed] came back and said they didn't have to tell us anything — that they were exempt from telling us and that it was secret information," he said in a telephone interview. "So then, we filed a suit in District Court in Washington to compel them to give us the information." The suit is in progress, and GATA has high hopes for it.

Murphy said his organization wants to find out exactly what the Fed and the Treasury have done with America's gold. "It's the people's gold, not their gold," he said. The manipulation of gold prices is very serious and is part of the U.S. "strong dollar policy," Murphy explained, pointing to the relationship between gold and interest rates.

"By suppressing the gold price, they can keep the dollar stronger than it would be and keep interest rates less than they would have been," he said, noting that this manipulation played a pivotal role in the current economic meltdown. "What happens is every time gold prices soar, what do you hear? Too much inflation? Crisis? It's always bad for the Wall Street crowd and the incumbent politicians…. If the gold price had been allowed to trade freely, interest rates wouldn't have been kept too low for too long," and the natural warning system would have kicked in.

Jeff Christian, founder of CPM Group, a trading firm dealing mostly with commodities, also spoke at the CFTC meeting. In his testimony, he revealed that bullion banks had leveraged their physical metals by as much as 100 to 1, essentially selling 100 times the amount of actual bullion they possessed, a fraudulent process known as "naked short selling." Morgan Stanley was sued for similarly fraudulent activities in 2007 by clients who were led to believe that the institution had purchased and stored bullion on their behalf. The clients even paid storage fees, only to discover later that their alleged bullion did not even exist. Morgan Stanley settled the multi-million dollar class-action suit "to avoid the cost and distraction of continued litigation," it claimed in a statement.

The allegations of gold price suppression seem to have been confirmed by the Fed itself. "Central banks stand ready to lease gold in increasing quantities, should the price of gold rise," then-Fed boss Alan Greenspan told the House Banking Committee in 1998. In other words, if gold prices go up, the central bank will make sure they come back down.

Even before Greenspan's infamous admission, a "confidential" Fed document dated April 5, 1961, available in the Federal Reserve Bank of St. Louis' archives, revealed the central bank's hand in the metals market. "Monetary authorities in the United States … have maintained the stability (and primacy) of the dollar in the international currency structure by standing ready to buy gold from, and sell it to, foreign monetary authorities who either need or acquire dollars for exchange purposes," reads the paper, entitled "U.S. Foreign Exchange Operations: Needs and Methods." The minutes from Fed "Open Market Committee" meetings showed the central bankers jubilantly admitting that even mentioning a possible gold sale would drive the price down.

The manipulation process today works something like this: When gold goes up in value relative to Federal Reserve Notes (what Americans today call "dollars") and other fiat currencies, the central bank "leases" out some of its holdings to other institutions at a relatively low interest rate. These firms then sell the borrowed gold, driving down the price of the metal relative to fiat money. The companies then invest the cash into other assets with a higher rate of return, allowing the Fed to keep gold prices down while providing banks with an opportunity to earn more money.

The scheme involves a number of other players too. "It's not only bullion banks like Goldman Sachs and JP Morgan Chase and HSBC, but also — we call it a gold cartel — it's also the Fed, the Treasury, the U.S. government, and the [central] Bank of England," Murphy explained, adding that some of the conspirators had likely broken laws and probably belonged in jail. The suspicions have also been recently confirmed by whistleblowers within the system.

But despite the deliberate suppression of gold and precious-metals prices, their value continues to rise as the Fed adds trillions of new dollars to the money supply. "Gold measures the value of currencies. And right now gold is telling us, in spite of the fact that the gold price is rigged by central banks and various entities, gold is telling us that the dollar is in danger — great danger," explained Fed foe Representative Ron Paul during a recent interview with CNBC. "We're in worse shape than we were in the 70s, and it was rather chaotic then. So we're moving into a very dangerous era according to what the gold price is telling us."

The manipulative system remains intact. But there are signs that some minimal government action is finally being taken regarding manipulation of metals and commodities markets. The CFTC recently slapped multi-million-dollar fines on Morgan Stanley and a large hedge fund for just such activities. Various news reports also claim the Department of Justice's anti-trust division is investigating alleged silver price manipulation by JP Morgan Chase.

Sadly, whatever is going on in the precious-metals market pales in comparison to the Fed's manipulation of literally the entire world economy via the creation and control of money and credit.

Manipulation of the Market for Money

Being a central bank, the Fed has taken upon itself the job of supplying the dollars that we use to make transactions. To supply our currency, the Fed either prints it, or it simply adds funds to America's ledgers by making an electronic adjustment to its books. To spread this currency throughout society, the Fed loans this "cash" to government or big banks for a very low interest rate, and the banks, in turn, loan it to other banks, which expand the supply even more and loan it to consumers.

The Fed can artificially boost segments of the economy, such as housing, for a period of time (even many years) by creating lots of money and flooding the market with it by offering it at very low interest rates — prompting lots of people to take out low-interest loans to build houses (and causing a market bubble). In a free market, on the other hand, the price of money would be determined by the amount of savings (supply) and the amount of currency sought by borrowers (demand). Interest rates would be set where the supply and demand curves meet, with the relative risk of a loan raising or lowering the interest rate demanded by a bank — higher risk earns banks higher rates. But instead, a shadowy, unelected cabal at the Fed arbitrarily sets interest rate "targets" and creates or destroys money to achieve its aims. The problems that result from this central economic planning cannot be overstated and include malinvestment, inflation, destruction and redistribution of wealth (from the poor and middle class to the super rich), and much more.

It also creates the "boom and bust" cycle and enables the "Welfare-warfare State" to function by loaning government amounts of money that it could likely not convince citizens to give up through direct taxation. Again, flooding a country with new money means everything just costs more, and the government essentially pays its bills through inflation — rather than through direct taxes.

By manipulating interest rates and thereby the price of money, the Fed becomes the de facto central planner of the economy and probably the single greatest market manipulator in all of history.

But even worse than those problems, as serious as they are, is the fact that the entire system is literally a "debt trap." When money is created by the central bank and borrowed into circulation by government or commercial banks, more money is owed to the cartel than actually exists. This is because the interest on the principal charged by the central bank was never created with the money that was originally lent out.

The results of this trap were illustrated in the conclusions of Ronald Reagan's Grace Commission: "100% of what is collected is absorbed solely by interest on the Federal Debt … all individual income tax revenues are gone before one nickel is spent on the services taxpayers expect from government." The system literally depends on the creation of ever greater debt loads in perpetuity, and if new borrowers cannot be enticed into taking out loans, the whole economy collapses — leaving the bankers in control of everything (plus interest).

Republican Representative Ron Paul of Texas, who originally introduced legislation to Audit the Fed, explains some ramifications of the Fed's control of money. "Due to nearly a century of inflationary monetary policy on the part of the Federal Reserve, the US dollar stands at historically low levels. Investors around the world are shunning the dollar, and millions of Americans see their salaries, savings accounts, and pensions eroded away by rising inflation," Paul said in a statement introducing legislation that would legalize competing currencies and end the government-created Fed monopoly. "We stand on the precipice of an unprecedented monetary collapse, and as a result many people have begun to look for alternatives to the dollar. As a proponent of competition in currencies, I believe that the American people should be free to choose the type of currency they prefer to use."

The consequences of monetary central planning and the debt trap inherent in the system have distorted the economic landscape beyond imagination. Nobel Prize-winning economist Friedrich A. Hayek thought civilization itself depended on ending the corrupt process. "The only way to avoid being driven by continuing inflation into a controlled and directed economy, and therefore ultimately in order to save civilization, will be to deprive governments of their power over the supply of money," he wrote in *The Denationalization of Money*. The greatest minds in economics — from Ludwig von Mises to Murray Rothbard — have echoed his concerns.

Fed Fighting Back

Of course, the Fed and its allies — the Obama administration and a powerful coalition of big banks including Bank of America, Citigroup, Deutsche Bank, and JPMorgan Chase through the Clearing House Association — are desperately attempting to beat back the myriad attacks on the central bank's market manipulations and secrecy. The cartel has been waging an intense public-relations battle, and it even hired a lobbyist to pressure Congress to protect its interests. Unbelievably, the Senate has sought to increase the Fed's powers through passage of the financial reform legislation in mid-May. This bill has not yet been passed as law because the Senate bill must be reconciled with the House bill.

It is to be hoped that as investors, legislators, and taxpayers continue to demand answers, the truth will finally come out and, if warranted, the prosecutions can begin. The issue of Fed transparency transcends politics — the American people are growing tired of an unaccountable, unconstitutional institution impoverishing them and enriching the banks without even so much as an audit. But with the economy in shambles and inflation rapidly destroying the dollar, the time for action to rein in these abuses is rapidly dwindling. Politicians who side with the banking cartel should be booted out of office at the next possible opportunity, and solutions must be found soon to avert a tragedy of historical proportions.

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