Written by **Alex Newman** on April 1, 2011

Fed Showered Money On Foreign Banks

Complying with a court order, the Federal Reserve began releasing documents on March 31 related to one of its bailout and wealth-transfer schemes during the financial crisis. And it turns out that among the biggest beneficiaries were foreign firms, including a bank owned by Libyan dictator Moammar Gadhafi's central bank.

Some of the foreign banks that were bailed out through the discount window — sometimes to the tune of tens or even hundreds of billions of dollars — include Bank of China, Société Générale of France, Royal Bank of Scotland, Dexia, Erste Group, Arab Banking Corp., Commerzbank, Depfa, Landesbank Baden-Württemberg, Norinchukin Bank, and many more. Countless American banks such as Bank of New York and Morgan Stanley gobbled up bailout money too.

"We are finding [that] pretty much every bank borrowed from the discount window," said a reporter for Fox Business right after receiving the more than 25,000 pages of documents from the Fed. The discount window is a central-bank facility used by commercial banks to borrow money when they can't find it on the open market.

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But critics immediately lambasted the central bank's activities. Long-time Fed foe Rep. Ron Paul (R-Texas), for example, the chairman of the House subcommittee that deals with the central bank, blasted the new revelations in a TV interview.

"The American people are going to be outraged when they understand what has been going on," charged Rep. Paul, a fierce critic of the bailouts, the secrecy, and even the Fed itself, which he hopes to abolish eventually. "What in the world are we doing thinking we can pass out tens of billions of dollars to banks that are overseas? We have problems here at home with people not being able to pay their mortgages, and they're losing their homes."

Following years of litigation over the documents, Fox News and Bloomberg were finally vindicated on March 21 when the Supreme Court refused to hear an appeal of lower-court rulings ordering the Fed to disclose the bailout information. The central bank had argued in federal court, among other things, that it was a private corporation not subject to Freedom of Information Act (FOIA) laws and that releasing the documents would hurt the bailed-out institutions.

"The [New York Fed] is not an establishment of the executive branch because it is a corporation whose stock is privately held," explained a brief filed by the Fed's Board of Governors in the case. The document also noted that the institution "is overseen by a board of directors the majority of whom are privately appointed" and that "none of the stock of the [New York Fed] is government-owned." Multiple federal judges, however, still said the documents had to be disclosed.

According to news reports about the newly released bailout details, at the peak of Fed discount-window bailouts on October 29, 2008, more than $110 billion was shoveled at banks in a single day. Almost half of that went to just two European banks.

Three-fourths of the 12 largest recipients of Fed largesse that day were foreign companies — one of which, Arab Banking Corp., is now majority owned by the Central Bank of Libya. At the time, the Libyan dictatorship owned almost a third of the company.

But lawmakers have already blasted the Libyan dictator's bank bailout, too. "It is incomprehensible to me that while creditworthy small businesses in Vermont and throughout the country could not receive affordable loans, the Federal Reserve was providing tens of billions of dollars in credit to a bank that is substantially owned by the Central Bank of Libya," said Senator Bernie Sanders (I-Vt.), a nominal Fed critic who was nonetheless responsible last year for watering down the Audit the Fed bill of Rep. Ron Paul (R-Texas).

In another twist highlighted by the statement from Sen. Sanders' office, it turns out that the Libyan-owned bank was using U.S. Treasury securities as collateral for the low-interest loans from the Fed — effectively borrowing money for virtually no interest from the central bank, then loaning it to the U.S. government for a big profit at taxpayer expense.

Of course, countless banks were using that same strategy to rip off taxpayers, as reported by *The New American* last year in a piece exposing the central bank's manipulation of markets. But the Arab bank was unique in that it was partly owned by the Libyan dictatorship — a regime supposedly under strict U.S. economic sanctions.

The discount window was just one of many programs used to transfer American wealth to big banks via the Fed — essentially a cartel-like institution owned by private interests, but with the power to create public money out of thin air and charge interest on it. Other bailout programs operated by the central bank doled out trillions more.

Disclosures from December of last year, mandated by a provision in the financial-reform bill, also revealed startling details about the Fed's wealth-transfer schemes. Under the guise of saving the financial system, the central bank bailed out big firms including countless foreign banks with more than $10 trillion in "emergency" funds.

Those documents covered six Fed operations including the trillions in "asset purchases" it made through front companies, the bailout of certain favored firms such as AIG, and so-called "currency swaps" with foreign central banks. Details of the discount-window loans were not covered by the legislation that forced those disclosures, but future activities under the program will be public after a two-year lag, thanks to the watered-down audit provisions that passed last year.

A Fed spokesman refused to comment about the new documents when contacted by Bloomberg. But in a blog entry posted on the New York Fed's website the day before the documents were released, Fed economists Joao Santos and Stavros Peristiani seemingly contradicted one of the main arguments the central bank had used to fight against disclosure — that it would hurt institutions which borrowed from the Fed by stigmatizing them.

"It should be emphasized that confidentiality is not meant to protect the identities of individual banks per se, but rather to make the discount window more effective in dealing with market disturbances," they wrote. When fighting against disclosure, Fed lawyers had claimed that revealing the identities of the bailed-out firms would harm their reputations.

The new documents will take time to analyze and review. But as more information continues to emerge about the Fed and its activities, pressure is mounting to reform the monetary system altogether.

States are considering various options including the option to use of gold and silver as legal tender — legislation in Utah authorizing just that was signed last week by the Governor. More than a dozen other states are considering similar bills.

If something doesn't change soon, analysts around the world are predicting an imminent crisis and the possible end of the dollar's position as the world reserve currency. Even worse: as the dollar continues to lose value with the Fed injecting ever greater sums of new fiat currency into the system, world leaders are busy plotting the creation of a global currency managed by an international central bank.

The Fed's days may be numbered — especially after all the revelations of trillions of dollars worth of wealth-transfer programs continue to cause ever-intensifying outrage among Americans. But if sound-money advocates fail to reform the system soon, the future alternative may be even worse.

Photo: The Marriner S. Eccles Federal Reserve Board Building, Washington, D.C.; the Central Bank of Libya building in Tripoli.